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## NOTE

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For the recommendations, resolutions, declarations and decisions adopted by the United Nations Conference on Trade and Development, see:

First session: *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;

Second session: *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 I, A, pp. 27-58;

Third session: *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 I, A, pp. 51-114.

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## CONTENTS

## ABBREVIATIONS

| | |
|---|---|
| ABEDA | Arab Bank for Economic Development in Africa |
| ABIFT | Arab Bank for Investment and Foreign Trade |
| ACP | African, Caribbean and Pacific [States] |
| ADC | Andean Development Corporation |
| ADF | African Development Fund |
| ADFAED | Abu Dhabi Fund for Arab Economic Development |
| AfDB | African Development Bank |
| AFESD | Arab Fund for Economic and Social Development |
| AFPLAC | Arab Fund for the Provision of Loans to African Countries |
| AFTAAAC | Arab Fund for Technical Assistance to Arab and African Countries |
| AIC | Arab Investment Company |
| APIC | Arab Petroleum Investment Company |
| AsDB | Asian Development Bank |
| CABEI | Central American Bank for Economic Integration |
| CDB | Caribbean Development Bank |
| CFF | compensatory financing facility |
| CGIAR | Consultative Group for International Agricultural Research |
| CFTC | Commonwealth Fund for Technical Co-operation |
| c.i.f. | cost, insurance and freight |
| CMEA | Council for Mutual Economic Assistance |
| DAC | Development Assistance Committee |
| Dh | United Arab Emirates dirham |
| ECWA | Economic Commission for Western Asia |
| EDF | European Development Fund |
| EFF | extended fund facility |
| EIB | European Investment Bank |
| ESCAP | Economic and Social Commission for Asia and the Pacific |
| FAO | Food and Agriculture Organization of the United Nations |
| f.o.b. | free on board |
| GATT | General Agreement on Tariffs and Trade |
| GDP | gross domestic product |
| GNP | gross national product |
| GSP | generalized system of preferences |
| IAIGC | Inter-Arab Investment Guarantee Corporation |
| IBEC | International Bank for Economic Co-operation |
| IBRD<br>World Bank | International Bank for Reconstruction and Development |
| ID | Iraqi dinars |
| IDA | International Development Association |
| IDB | Inter-American Development Bank |
| IFC | International Finance Corporation |
| IMF | International Monetary Fund |
| IsDB | Islamic Development Bank |
| ISF | Islamic Solidarity Fund |
| KD | Kuwaiti dinars |

| | |
|---|---|
| KFAED | Kuwait Fund for Arab Economic Development |
| KSC | Kenana Sugar Company |
| LAFB | Libyan Arab Foreign Bank |
| LAFTA | Latin American Free Trade Association |
| LAS | League of Arab States |
| LASEF | League of Arab States Emergency Fund |
| MFN | most favoured nation |
| MPCC | Maghreb Permanent Consultative Committee |
| LD | Libyan dinars |
| OAPEC | Organization of Arab Petroleum Exporting Countries |
| OAPEC-SAAPIC | OAPEC Special account to ease the financial burdens of Arab petroleum importing countries |
| OAU | Organization of African Unity |
| OECD | Organisation for Economic Co-operation and Development |
| OEEC | Organisation for European Economic Co-operation |
| OMVS | Organisation pour la mise en valeur du fleuve Sénégal (Organization for the Development of the Senegal River) |
| OPEC | Organization of Petroleum Exporting Countries |
| PLO | Palestine Liberation Organization |
| R and D | Research and Development |
| RCD | Regional Co-operation for Development |
| SAAPIC | Special account to ease the financial burdens of Arab petroleum importing countries |
| SDF | Saudi Development Fund |
| SDR(s) | Special drawing right(s) |
| SITC | Standard International Trade Classification (revised) |
| SR | Saudi Riyals |
| Stabex | (scheme for) stabilization of export receipts |
| SUMED | Suez-Mediterranean oil pipeline |
| u.a. | units of account |
| UAE | United Arab Emirates |
| UNCTAD | United Nations Conference on Trade and Development |
| UNDP | United Nations Development Programme |
| UNESCO | United Nations Educational, Scientific and Cultural Organization |
| UNHCR | Office of the United Nations High Commissioner for Refugees |
| UNICEF | United Nations Children's Fund |
| UNIDO | United Nations Industrial Development Organization |
| UNRWA | United Nations Relief and Works Agency for Palestine Refugees in the Near East |
| UNTA | United Nations Technical Assistance |
| VIF | Venezuelan Investment Fund |
| WFP | World Food Programme |
| WHO | World Health Organization |
| WIPO | World Intellectual Property Organization |
| WMO | World Meteorological Organization |

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## EXPLANATORY NOTES

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

A hyphen between years, e.g. 1965-1968, signifies the full period involved, including the beginning and end years.

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

*In tables:*

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

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

A minus sign (–) before a figure indicates a decrease, unless otherwise indicated.

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

Figures in parentheses in tables, e.g. (25.0), are estimates.

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

# DOCUMENT TD/184*

## Action on commodities, including decisions on an integrated programme, in the light of the need for change in the world commodity economy

*Report by the UNCTAD secretariat*

[*Original: English*]
[*4 March 1976*]

CONTENTS



## *Foreword*

The present report summarizes the main issues of international commodity policy before the Conference, including the proposals for an integrated programme for commodities, which have been under intensive discussion in UNCTAD throughout the past year. At the third part of its eighth session, the Committee on Commodities reached agreement, in its resolution 16 (VIII), that secretariat studies and intergovernmental discussions on an integrated programme "have reached a stage at which it is possible to take concrete decisions". The resolution also recommended that the Board, at its seventh special session, should make, with respect to an integrated programme and its applicability, "detailed recommendations, for decision by the United Nations Conference on Trade and Development at its fourth session, on, *inter alia:* (*a*) the objectives; (*b*) commodities to be covered; (*c*) international measures; (*d*) follow-up procedures and time-table for the implementation of agreed measures".[1]

In the report, three issues closely related to the question of an integrated programme are also considered. On two of these, the Secretary-General of UNCTAD was specifically requested by the General Assembly, in section I, para-

* Incorporating document TD/184/Corr.1.

[1] *Official Records of the Trade and Development Board, Seventh Special Session, Supplement No. 5* (TD/B/596), annex I.

graphs 4 and 5, of its resolution 3362 (S-VII), to make proposals to the Conference. These issues are "the impact of an integrated programme on the imports of developing countries which are net importers of raw materials and commodities, including those lacking in natural resources" and "the options... open to the international community to preserve the purchasing power of developing countries". The third issue, also included in the above resolution, relates to the question of the improvement of the position of developing countries in the marketing and distribution of their primary commodity exports.

The report should be read in conjunction with four supporting documents dealing, respectively, with a review of recent trends in world commodity markets (TD/184/Supp.1), the preservation of the purchasing power of developing countries' exports (TD/184/Supp.2[2]), the relation between prices of commodity exports from developing countries (TD/184/Supp.3 and Corr.1) and the corresponding final consumer prices, and marketing and distribution systems (TD/184/Supp.4 and Corr.1).

In the consideration of the proposals contained in the report, it will no doubt be borne in mind that the General Assembly, in section I, paragraph 3, of its resolution 3362 (S-VII), decided that an important aim of the fourth session of the Conference should be "to reach decisions on the improvement of market structures in the field of raw materials and commodities of export interest to the developing countries, including decisions with respect to an integrated programme and the applicability of elements thereof".

## CHAPTER I

## *Introduction*

1. It is now widely recognized that the traditional piecemeal approach to international commodity issues has proved inadequate to deal with the main problems of the world commodity economy. Attempts to regulate commodity markets through international agreements have met with limited success, and then only for a relatively few commodities. The world economy remains essentially unprotected against the consequences of sudden and substantial shifts in the balance of supply and demand in major commodity markets. This underlying weakness has been dramatically demonstrated in the recent past, not only by the sharp fluctuations in commodity prices but also by the inability of existing arrangements to meet the essential food requirements of many developing countries.

2. The traditional approach has furthermore not provided for developing countries any assurance of an adequate level and growth of foreign exchange earnings for their primary commodities. Since the majority of these countries depend on commodity exports to meet the greater part of the external cost of their development programmes, this inadequacy of existing international policies constitutes a major constraint on the development effort.

[2] Reproduced below.

3. The problem of inadequate purchasing power has become much more acute, for the majority of developing countries, as a result of inflation and recession in developed market-economy countries and the consequent adverse pressure on their import capacity. Indeed, many developing countries have been faced with trade deficits of unparalleled magnitude, and have been forced to halt or slow down the development process or run more heavily into debt to meet their essential import requirements.

4. Moreover, the drain of real resources out of the commodity sectors of developing countries, resulting from a continuing decline in the real value of their commodity exports, will inevitably halt or retard the investment necessary to expand productive capacity. Hence, there is a danger that world commodity output will be inadequate to meet demand in the next phase of world economic expansion, and that importing countries will face renewed shortages and high prices for essential commodities.

5. A new orientation in international commodity policy, involving new structures and new mechanisms, designed to meet the pressing problems of the world commodity economy, and of the developing countries in particular, would therefore appear to be urgently required. Indeed, such a new orientation must be conceived as an ingredient in the evolution of a new system of international economic relationships essential to a new international economic order.[3]

6. A new approach to the commodity problem needs to be developed over a wide front to bring about a lasting improvement in the functioning of world commodity markets, and to strengthen the commodity sectors of the economies of developing countries by redistributing more equitably the benefits derived from international commodity trade.

7. The integrated programme for commodities, which was under intensive discussion in the UNCTAD Committee on Commodities during 1975 and the early part of 1976, was designed as an important first step to meet the problems outlined above. The principal elements of the integrated programme are already before Governments,[4] which have agreed that the necessary preparatory work has reached a stage at which it is possible to take concrete decisions.[5] For convenience, the objectives and main elements of the proposals for an integrated programme are summarized briefly in chapter II of the present report, in which the possible impact of the programme on commodity importing developing countries, and the role of producers' associations in its implementation, are also examined.

[3] For a more comprehensive discussion of the place of a new approach to commodity policy in the movement towards a new international economic order, see the report by the Secretary-General of UNCTAD to the Conference at its fourth session entitled *New directions and new structures for trade and development* (United Nations publication, Sales No. E.77.II.D.1), especially chapter II thereof.

[4] See, in particular, a report by the Secretary-General of UNCTAD under the title "Specific proposals for decisions and action by Governments" (TD/B/C.1/193).

[5] See resolution 16 (VIII) of the Committee on Commodities.

8. The integrated programme would constitute a break with past approaches by introducing an important element of global resource management in the interests of the development process, as well as by promoting a more orderly evolution of commodity supply in the interests of the world economy as a whole. None the less, complementary measures will also be required to deal specifically with the problem of preserving and improving the purchasing power of the commodity exports of the countries of the third world. The main options available to achieve this objective are outlined in chapter III, section B, below.

9. The implementation of the proposals for an integrated programme would also represent a first step in the institutional restructuring of the commodity sectors of the economies of developing countries. The historical heritage of past dependency relationships still influences the existing institutional structures in many commodity sectors. These relationships are still manifest in the patterns of ownership and control over the commodity trade of developing countries, over the international marketing and distribution of their commodity exports, over their processing and transportation, and in important instances over the levels of remuneration of the individual producers. Meaningful changes in these institutions and structures will take time, and require joint action by the developing countries, as well as supporting action by the international community as a whole. The marketing and distribution system is a key determinant of the relative benefits deriving from trade, economic growth and diversification in commodity sectors, and is one which has become increasingly dominated by the operations of transnational corporations. Section C of chapter III below summarizes some of the main features of existing marketing and distribution systems, and draws some implications for international policy in this area.

10. Finally, in chapter IV below, the issues in the field of commodities for consideration by the Conference at its fourth session are set out briefly.

## CHAPTER II

## *Proposals for an integrated programme*

### A. Objectives

11. The broad objectives of the proposed programme are (*a*) to improve the terms of trade of developing countries and to ensure an adequate rate of growth in the purchasing power of their aggregate earnings from exports of primary commodities, while minimizing short-term fluctuations in those earnings, and (*b*) to encourage a more orderly development of world commodity markets in the interests of both producers and consumers.

12. More specifically, the objectives would be:

(*a*) The establishment and maintenance of commodity prices at levels which, in real terms, are equitable to consumers and remunerative to producers, taking full account of the world rate of inflation, the need to provide incentives for adequate investment in commodity production, the depletion of non-renewable resources and the need to keep the prices of natural commodities competitive with those of their synthetic substitutes;

(*b*) The reduction of excessive fluctuations in commodity prices and in the volume of trade, account being taken of the special importance of this objective in the cases of essential foodstuffs and natural products facing competition from stable-priced substitutes;

(*c*) Assurance of access to markets, especially to those of developed countries, for commodity-exporting countries;

(*d*) Assurance of access to supplies of primary commodities for importing countries, particular attention being given to assuring supplies of food aid and other essential raw materials;

(*e*) Expansion of the processing of primary commodities in developing countries;

(*f*) Improvement of the competitiveness of natural products vis-à-vis synthetics;

(*g*) The restructuring, or rationalization, as appropriate, of the marketing and distribution system.

13. In addition to these basic objectives, certain others may be appropriate in regard to arrangements negotiated for particular commodities, such as research and development, and the expansion of production or consumption.

### B. Main elements

#### 1. *Commodity coverage*

14. The programme proposed would cover a sufficiently wide range of commodities of importance in the external trade of developing countries. To this end, it has been suggested, after careful study, and without prejudice to governmental decision in accordance with resolution 16 (VIII) of the Committee on Commodities, that a list of 17 commodities could serve as a basis for that decision. In total, these 17 commodities represent about three-quarters of the value of agricultural and mineral commodities, other than petroleum, exported from developing countries. Moreover, developed countries have a substantial trade interest in international market arrangements for these commodities. It may be noted that five of the commodities are covered by international agreements of one kind or another.

15. The list of commodities includes the ten "core" commodities on which attention has been focused as storable products suitable for international stocking schemes, and on which the elaboration of the proposals for a common fund for financing stocks is based.[6] Of the ten "core" commodities – which together account for about 75 per cent of the value of the exports from developing countries of all 17 commodities – the trend in the real value of exports was practically zero or negative over the period 1953-1972 for seven commodities.[7] As regards the

[6] These ten "core" commodities are cocoa, coffee, copper, cotton, jute, rubber, sisal, sugar, tea and tin.

[7] Coffee, cocoa, tea, cotton, rubber, jute and sisal.

remaining three "core" commodities, the upward trend in the real value of exports was about 2 per cent a year for sugar, while only for copper and tin did the growth rate in real exports exceed that rate (see table 1 below).

16. The ten "core" commodities also include many which exhibit excessive annual fluctuations both in prices and in export earnings of developing countries. Such fluctuations have been particularly prominent in the world markets for coffee, cocoa, sugar, rubber, jute, sisal and copper.

17. The list shown in the table below is not meant to be exclusive, and there are other commodities in respect of which international action needs to be taken. In any case, the decision with regard to the list must remain the responsibility of Governments. It should be stressed, however, that within the limitations of time, resources and the past consideration of appropriate remedial action, it appears essential that the first phase of an integrated programme should concentrate on a selection of commodities for which early action would bring much-needed relief from the critical foreign-exchange situation faced by many developing countries.

### 2. *International stocks*

18. The establishment and operation of international stocks constitute a central feature of the proposals for an integrated programme. For each of the ten "core" commodities, it is proposed that the negotiation of international stocking arrangements should be undertaken, or existing stocking arrangements reviewed and, where necessary, strengthened. For some of these commodities, negotiations could lead to the immediate acquisition of stocks in order to support agreed minimum price levels; for others, new schemes could be established, or existing ones strengthened, to deal with downward price movements and excessive supplies when these emerged.

19. International stocking policies are desirable for a number of other commodities in addition to the ten "core" commodities. The most important of these is the group of food grains, for which action to ensure adequate global reserves and more stable prices has been under intensive international examination since the food crisis of 1972-1973. A comprehensive policy to improve the food supplies of developing countries would need to include stocking provisions which gave developing countries assurance of supplies of reasonable prices and without the disruption of food aid.

20. For each commodity, the size of an international stock would need to be carefully assessed, with a view to providing an assurance of adequate supplies at all times, preventing excessive price fluctuations, and providing an assurance of the disposal of production undertaken on the basis of a realistic assessment of demand. For most, or all, of the arrangements for individual commodities involving provisions for the establishment of international stocks, the stock mechanism would need to be combined with other market regulation techniques, as appropriate (see paras. 32-37 below). In particular, for commodities facing unsatisfactory price trends, the stock mechanism will need support by some form of supply management, such as an export or production regulation arrangement, in order to achieve a remunerative level of prices for the producers.

### 3. *Common fund*

*Rationale*

21. Hitherto, the establishment of an international stock negotiated within the framework of a commodity agreement has been dependent upon *ad hoc* financing arrangements. These arrangements have generally placed the burden of finance on the producers, while the amount of finance made available has tended to be inadequate. Moreover, proposals for the establishment of international stocks have sometimes not received serious consideration because of their financial implications. On the basis of past experience, it would seem that the effort to establish a series of international stocks of the major traded commodities, as envisaged in the integrated programme, will be seriously hampered if an adequate and assured source of finance is not readily available.

22. The proposal to set up a common fund is intended to remove this constraint. The existence of such a fund would allow the negotiation of international stocking schemes to go forward unhampered by the particular financial difficulties of individual participating countries under *ad hoc* systems of financing. The availability of finance would exercise a catalytic role in stimulating new commodity stocking arrangements, and would thus give a much-needed stimulus to the early completion of the round of individual commodity negotiations envisaged in the integrated programme.

23. The establishment of a common fund would constitute a major improvement in the existing international institutional arrangements relating to primary commodity markets. As an operational instrument which could taken an over-all view of the problems of the world commodity economy, the common fund could inject a new dynamism into international commodity policy. If it had adequate funds at its disposal, it could take needed action, as Governments might agree, to support weak commodity markets, encouraging remedial measures to achieve a balance between supply and demand. The establishment of the fund would provide an opportunity to set up decision-making machinery which would provide developing, as well as developed, countries with an appropriate share of responsibility in the formulation of operational policies.

*Mode of operation*

24. The primary function of the common fund would be to make loans to individual commodity organizations operating international stocks, under appropriate conditions. It is these organizations which would trade in individual commodities by buying and selling, and which would own and dispose of the international stocks. The fund would grant loans to the commodity organizations as

TABLE

**Proposed commodity coverage of the integrated programme**

| | *Exports from developing countries* | | | | | | |
|---|---|---|---|---|---|---|---|
| | *Rates of growth 1953-1972* | | | *Indices of fluctuations 1953-1972*[a] | | | |
| | *Market prices* | *Value* | *Deflated value*[b] | *Market prices* | *Value* | *Deflated value*[b] | *Value in 1972* |
| | *(per cent per annum)* | | | *(per cent)* | | | *($ billion)* |
| 1. *"Core" commodities* | | | | | | | |
| Coffee | –1.6 | 1.0 | –0.4 | 17.0 | 11.1 | 9.2 | 3.0 |
| Cocoa | –1.3 | 1.7 | 0.2 | 23.0 | 13.4 | 12.6 | 0.7 |
| Tea | –1.9 | – | –1.5 | 6.2 | 5.5 | 6.0 | 0.6 |
| Sugar | 0.2 | 3.8 | 2.2 | 33.4 | 9.2 | 7.5 | 2.2 |
| Cotton | –0.7 | 1.1 | –0.4 | 8.2 | 9.1 | 7.9 | 1.8 |
| Rubber | –3.2 | –1.7 | –3.1 | 13.2 | 14.7 | 14.4 | 0.9 |
| Jute | 1.9 | 0.7 | –0.8 | 11.9 | 12.2 | 14.1 | 0.7[c] |
| Sisal | +1.2 | –0.3 | –1.8 | 18.0 | 26.3 | 28.6 | 0.1 |
| Copper | 4.0 | 7.8 | 6.2 | 21.5 | 17.1 | 17.5 | 2.4 |
| Tin | 4.0 | 5.2 | 3.6 | 7.9 | 18.8 | 18.4 | 0.6 |
| 2. *Other commodities* | | | | | | | |
| Wheat | – | –2.8 | –4.2 | 4.7 | 28.6 | 31.1 | 0.2 |
| Rice | 0.5 | 0.2 | –1.2 | 11.3 | 12.9 | 14.8 | 0.4 |
| Bananas | –0.9 | 3.9 | 2.4 | 4.3 | 7.7 | 7.2 | 0.6 |
| Beef and veal | 6.9 | 12.0 | 10.3 | 20.8 | 15.4 | 15.1 | 1.4[d] |
| Wool | –2.2 | –3.6 | –5.0 | 11.4 | 10.2 | 12.5 | 0.2 |
| Bauxite | 2.6 | 8.1 | 6.5 | 4.7 | 8.8 | 10.8 | 0.5[e] |
| Iron ore | –2.4 | 9.3 | 7.7 | 8.3 | 10.8 | 12.3 | 1.0 |
| Total | .. | .. | .. | .. | .. | .. | 17.3 |

*Sources*: UNCTAD, *Monthly Commodity Price Bulletin;* FAO, *Trade Yearbook;* and national statistics.

[a] The fluctuation index is the average over the period of differences between annual observations and calculated trend values (irrespective of sign) expressed as percentage of the trend value.

[b] Export value deflated by United Nations unit value index for world exports of manufactured goods.

[c] Including jute manufactures.

[d] Including cattle.

[e] "Prices" are export unit values; value in 1972 includes alumina.

they needed finance to buy stocks, and would be repaid as the organizations acquired funds from stock disposals.

25. The exact financial relationship between the common fund and individual commodity organizations would be a matter for negotiation between the fund and the organization concerned, taking into account the specific needs of the particular commodity scheme. Moreover, the future of self-financing arrangements, where these existed, would need to be considered in the light of the advantages mentioned in the following paragraph.

26. By acting as a central source of finance for all the various commodity organizations, the common fund would be in a position to obtain better borrowing terms on capital markets than the individual commodity organizations, as it would pool and reduce the risks and its bargaining strength would be greater. Moreover, the common fund required to operate a given number of separate stocking schemes would be smaller than the aggregate of the funds required by individually financed commodity stocks, since a common fund could take advantage of the differential phasing of financial flows into and out of individual stocking accounts. In addition, a system of common financing would require the separate schemes to hold less in liquid funds on average over a period than would be necessary for *ad hoc* financing.

### *Cost of establishing a common fund*[8]

27. An examination of the probable cost of the initial acquisition of stocks of the ten "core" commodities, together wih an allowance for other commodities (except grains) for which the establishment of international stocks would be appropriate, indicates that an aggregate capital fund of $3 billion would be required. Of this total, $1 billion could be provided as paid-up risk capital and $2 billion as loans. It is also proposed that Governments should undertake a further commitment of $3 billion – again with $1 billion in the form of paid-up capital and $2 billion as loans – to be on call if and when needed. Thus, it is envisaged that the major portion of the capital

[8] For a detailed discussion of the financial implications of establishing a common fund, see the reports by the Secretary-General of UNCTAD on a common fund for the financing and commodity stocks, issued under the symbols TD/B/C.1/166/Supp.2 and Corr.1, TD/B/C.1/184 and Corr.1, TD/B/C.1/184/Add.1 and Add.1/Corr.1 and TD/B/C.1/196 and Add.1.

for the common fund would be in the form of loans carrying interest charges, since the operation is regarded as essentially self-financing.

28. It is envisaged that the call-up of capital would be linked to the negotiation and operational requirements of the various international stocks to be set up. Thus, the commitment of capital to the common fund would not involve Governments setting aside large financial resources before the negotiation of individual commodity schemes was completed, any more than it would in the case of direct contributions under the *ad hoc* financing of such schemes.

*Sources of funds*

29. It is proposed that the paid-up capital of the common fund should be subscribed by countries which are importers or exporters of the commodities to be covered by the integrated programme, while it is envisaged that countries – such as certain petroleum exporters – in balance-of-payments surplus would extend long-term loans to the fund.

30. Thus, countries which export or import the commodities in question and stand to benefit from the integrated programme would be expected – as a result of reduced market instability, a smoother flow of supplies, or more remunerative prices – to contribute, the basis of contribution being subject to negotiation.[9] However, special measures in favour of "least developed" and "most seriously affected" developing countries which are exporters or importers of the commodities covered by international arrangements established under the integrated programme should be an accepted feature of such arrangements. Such measures might include exemption from the obligation to contribute to the capital of the common fund, and specially favourable treatment in the allocation of export quotas should an export regulation scheme be adopted.

31. It is anticipated that the long-term loans to the capital of the common fund that could be made by a number of petroleum-exporting countries would be encouraged, since investment in international stocks would be backed by attractive collateral with reasonable rates of return.

### 4. *Other measures in commodity agreements*

32. The operation of international stocks will generally need to be supported by the incorporation of other measures in commodity agreements. In the case of non-storable commodities, reliance would have to be placed on measures other than stock operation.

33. Among these measures would be supply management by producers and, wherever feasible, multilateral trade commitments by both consumers and producers. These two techniques, applied in conjunction with stock operations as appropriate, would be the principal means of achieving long-term equilibrium of demand and supply at prices which, in real terms, would be remunerative to producers and equitable to consumers. For the management of supply, export quotas might be necessary, but techniques such as uniform *ad valorem* export taxes or minimum export price schemes, and co-ordination of diversification and investment plans could also be considered. Multilateral commitments would be particularly useful for facilitating the longer-term planning of resource use and investment and for providing greater assurance of trade volume and export income.

34. By means of stocking, supply management or trade commitments, or by combinations of these measures, it should be possible, for some commodities at least, to achieve the objective of maintaining prices at adequate levels in real terms. Price targets in commodity arrangements would have to be flexible, however, to enable account to be taken of structural changes in supply or demand, though in some cases it might not be possible to prevent a deterioration in the price trend in real terms, especially if world inflation continued to be relatively rapid.

35. In such cases, therefore, alternative means would have to be sought to achieve an orderly adjustment of supply, while maintaining the import purchasing power of developing countries exporting the commodities concerned. In some cases, provision might be made, within commodity arrangements, for short-term financial assistance to exporters in developing countries linked perhaps to diversification or other measures of adjustment. More comprehensive and effective solutions to this problem, however, including the possibility of indirect indexation, will have to be considered.[10]

36. For primary commodities produced under protection, such as cereals, sugar and meat, improvements in access to markets should be provided for within the framework of international arrangements. Furthermore, arrangements for a number of commodities should provide for the reduction of barriers to imports of the processed forms of the commodities with which they are concerned.

37. Various additional measures will be required to meet the particular circumstances in individual commodity markets. Such measures would range from the promotion of consumption to activities designed to define principles of international behaviour that can be monitored and elaborated through an international arrangement, for example, with regard to codes of conduct applying to trade restriction or discrimination, and to the treatment of processed products in trade. In addition, for a wide group of commodities, co-ordinated efforts to stimulate research and development in regard to natural products facing competition with synthetics would be valuable, so that developing-country producers in general would be able to take full

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[9] For a detailed discussion of possible alternative criteria for determining country contributions, see the report by the Secretary-General of UNCTAD dealing with the suitability for stocking of individual commodities, country countributions and burden-sharing, and some operating principles (TD/B/C.1/196, chap. II, and TD/B/C.1/196/Add.1, annex V).

[10] See chapter III, section B, below for a further discussion of indirect indexation.

advantage of the more stable and expansionary conditions of trade encouraged by the economic provisions of commodity agreements.

*Negotiated price ranges*

38. In the present period of persistent high rates of inflation – a period likely to continue for some years – any price range initially fixed in money terms will become significantly eroded in real terms after a relatively brief period. To safeguard the real earnings of the commodity exports of developing countries, therefore, the agreements setting up the market regulatory mechanisms envisaged in the integrated programme should contain provisions for the periodic review and adjustment of the initial price ranges agreed upon, so as to allow for the effects of inflation. Such provisions would constitute an application of the concept of indexation within the framework of the internationally agreed techniques for the regulation of primary commodity markets. Without such indexation provisions, any agreement on price ranges would rapidly lose its meaning.[11]

*Commodity-by-commodity negotiations*

39. The agreements on the individual commodities to be covered by the integrated programme will have to be separately negotiated, in view of the wide differences in conditions of supply and demand, in the degree of price instability, in the trend of prices and in the nature of the institutional structures involved. It should be emphasized, however, that the undertaking of such commodity-by-commodity negotiations within the framework of an integrated programme would constitute a marked break with the traditional practice of negotiating in isolation arrangements for individual commodities.

40. On the basis of past experience, it is evident that this traditional approach has had only very limited success and suffers from a number of major weaknesses. First, it has resulted in market regulation agreements for only a few commodities, to the neglect of the majority. Thus, the benefits of market regulation have accrued to certain countries, and not to others. Second, a commodity negotiation taken in isolation inevitably gives undue prominence to narrow commercial and short-term national interests at the expense of the longer-term interests of the world commodity economy, and in disregard of the need to strengthen the commodity sectors of developing countries. Third, the traditional approach provides no opportunity for individual countries to strike a balance of advantage over a whole range of commodity negotiations.

41. The comprehensive coverage of a wide range of commodities of trading interest to a large number of countries, both developed and developing, and the proposed organization of individual negotiations within the framework of an agreed time scale and common principles and procedures are factors by which the integrated approach can be expected to overcome the various weaknesses of the traditional commodity-by-commodity approach.

[11] See chapter III, section B, below for a futher discussion of the question of indexation.

5. *Compensatory financing of export fluctuations*

42. The price and earnings stabilization that can be achieved through international commodity arrangements will need to be supplemented by a strengthened system of compensatory financing of export fluctuations, in order to deal with the circumstances of individual countries. For example, stable world market prices may not stabilize earnings for an individual country if its exports are adversely affected by poor crops. Improved compensatory financing would therefore be an essential component of the integrated programme, to offset residual fluctuations in the earnings of individual developing countries from their commodity exports as a whole.

43. An adequate system of compensatory financing in the context of the integrated programme for commodities would require considerable improvements in the existing IMF compensatory financing facility or the creation of a new facility. The IMF facility, as operated up to the end of 1975, proved inadequate in several major respects. An expanded and liberalized IMF facility came into operation from the beginning of 1976, and this is expected to lead to an increased use of the facility up to an amount of about $1 billion in the current year.[12]

44. However, in the light of past experience of the IMF facility, and taking account of its recent enlargement and of the principles underlying the Stabex scheme operating under the Lomé Convention,[13] it would appear that a number of major improvements are still required for the facility to become fully adequate as a component of the integrated programme. First, the special difficulties in commodity sectors of developing country exports emphasize the need to compensate for shortfalls either on the basis of the total commodity exports of the country or on the basis of all merchandise exports, whichever shortfall is the larger. Secondly, shortfalls in real export earnings should be the basis for compensation, the aim being to stabilize the trend in the purchasing power of exports. Thirdly, the problems that give rise to the need for compensatory financing warrant provision for more liberal terms of financial assistance than is provided on the ordinary lending terms of IMF. This can appropriately be achieved by introducing a grant element into compensatory financing and linking the repayment of compensatory loans to recovery in export earnings over a longer period than is covered by the medium-term financing currently available, such easing of terms and conditions to apply particularly to the poorest developing countries. Fourthly, the solution of

[12] The expanded IMF facility provides for a larger amount of loans than under the previous facility, the calculation of shortfalls for compensation will be based on trends that give weight to past growth in exports, and more flexible procedures are introduced in the processing of requests for assistance. However, IMF has made stricter the rules for early repayment and has maintained the 3-5 year limits on final repayment.

[13] Convention between the European Economic Community and 46 African, Caribbean and Pacific States, signed at Lomé, Togo, on 28 February 1975. Stabex is the code name given to the system for the stabilization of export receipts as applied under the Convention.

difficulties caused by export fluctuations should not be made conditional on the immediate balance-of-payments situation, and thus on the requirement of a narrowly defined balance-of-payments test.[14]

45. The question of the need for entirely new arrangements for offsetting residual fluctuations in the commodity export earnings of developing countries would depend on whether governments found it possible to amend the IMF facility to the necessary extent, as well as on their attitude towards wider participation in compensatory financing arrangements.

CHAPTER III

## *Related issues*

### A. Impact of the integrated programme on developing importing countries

46. The impact of the integrated programme on individual developing countries will depend on the programme's objectives as agreed by Governments, on the commodity coverage, and on the particular measures which are negotiated in relation to each commodity. The great majority of developing countries, being net exporters of primary commodities, would stand to benefit very significantly from measures serving to stabilize the prices of their commodity exports, or, in circumstances liable to lead to persistent over-supply, serving to prevent this and to raise commodity prices which would otherwise be chronically depressed.

47. There are, however, a number of developing countries which are normally net importers of primary commodities. Typically, these are small countries, including island countries, with relatively limited natural resources.

48. An earlier analysis, prepared by the UNCTAD secretariat, of the trading position of individual countries in the years 1970-1972 showed that of the 100 developing countries and territories for which detailed trade data were available, 80 were net exporters of a group of principal storable commodities, including those proposed for inclusion in the integrated programme. For 60 of those countries, the total value of their exports of these commodities was more than three times the corresponding import value.[15] Thus, for most developing countries, there should be a distinct net gain from the measures proposed in the integrated programme, not only in regard to their balance of trade, but also in regard to the benefits they would derive, in the planning and implementation of their development programmes, from the stabilization and strengthening of the prices of their major export commodities.

49. Of the 20 developing countries which were net importers of the commodities proposed for the integrated programme during the period 1970-1972, 13 have relatively high incomes or enjoy relatively fast growth in their export earnings. For the remaining 7 countries, the net import position reflected wholly or mainly the fact that they were food-deficit countries. The rise in world food prices since 1972 relative to the prices of other commodities has in all probability resulted in additional developing countries shifting into deficit in their commodity trade balances.

50. The impact of the integrated programme on these countries, which are net importers of commodities, would depend essentially on whether the programme operated, on balance, to stabilize prices or to raise them in real terms, and on the pattern of the commodity trade of the individual countries concerned. If fluctuations in prices were reduced without affecting the trend, both importing and exporting countries would gain from a smoother flow of supplies or from greater stability in export markets. Effective regulation of the world market, by reducing market instability, could also be expected to improve investment incentives for the expansion of future productive capacity, and to help in avoiding future crises of under- or over-supply.

51. In the integrated programme, action is also envisaged to achieve and maintain prices regarded by producers as adequate in real terms, while being acceptable as equitable by consumers. The impact of such action on net importing developing countries will depend very largely on whether action to improve the trend in commodity prices covers food as well as other commodities. As already indicated, the commodity trade deficit of this group of countries is wholly or mainly in food, many of them having a net trade surplus in non-food commodities.

52. Action under the integrated programme which involved a trend towards increases in food prices would therefore raise the question of the need for special measures to protect the interests of food-deficit developing countries. Complementary measures might also be needed for certain developing countries incurring a net trade loss as a consequence of action resulting in an upward trend in the prices of non-food commodities under the programme. Such action could have adverse trade effects, in particular, for countries which export manufactures based on imported raw materials.

53. In view of the fact that most of the countries which might be adversely affected by action tending to raise prices fall into the categories of the "least developed", "land-locked", "most seriously affected", or "geographically disadvantaged island" developing countries, and include certain countries lacking in natural resources, the special measures that might be adopted to prevent or offset any

[14] The improvements in compensatory financing suggested as elements fo the integrated programme form part of the broad proposal for the reform of the IMF facility put forward in the report by the UNCTAD secretariat intitled "International monetary issues: problems of reform" (TD/189), reproduced in the present volume. They do not therefore constitute a separate proposal, except in the case referred to in paragraph 45 below.

[15] Apart from the storable commodities among those listed in table 1 above, the calculation also included oils and oilseeds, lead and zinc (see the report by the UNCTAD secretariat entitled "An integrated programme for commodities: the impact on imports, particularly of developing countries" (TD/B/C.1/189), table 1 and para. 18).

adverse effects brought about by the integrated programme could include: (*a*) arrangements to ensure the availability of basic food imports at reasonable prices, or the provision of food aid, for the countries concerned; (*b*) the provision in individual commodity agreements for the supply of commodities on concessional terms to such countries; and (*c*) relief for such countries from financial or other burdens arising from the operation of international stocks or of the proposed common fund.

54. The above general survey of the kind of problems which might arise for net commodity-importing countries will need to be reviewed in more concrete terms when the integrated programme has entered the negotiating phase, and the commodities to be covered, the measures to be taken and their objectives have been agreed. At that point, the specific impact on individual countries can be reasonably assessed and particular remedial policies proposed.

### B. Preservation of the purchasing power of the exports of developing countries

55. The integrated programme for commodities can be conceived as a central element in a wider effort by the international community to restructure the world commodity economy so as to accelerate the development of the third world. In this context, an important complement to the integrated programme would be the establishment of additional mechanisms designed to safeguard the purchasing power of the aggregate exports of individual developing countries.

56. Though the International Development Strategy for the Second United Nations Development Decade[16] embodied a target rate of growth of 7 per cent a year for the real export earnings[17] of developing countries, actual performance so far in the present decade has fallen far short of this target for a large number of developing countries. Over the period from 1970 to 1974, almost 40 countries, accounting for half the total population of the third world, experienced an annual rate of increase of less than 7 per cent in the purchasing power of their export earnings over manufactured imports. Of these, 16 countries suffered absolute declines in real export earnings, while for a further 8 countries the corresponding growth rates were below 4 per cent a year. Present indications are that the position deteriorated sharply in 1975, with many more countries suffering a substantial deterioration in the real value of their exports.[18]

57. Trends in the purchasing power of exports follow and correspond to the trends in export volume and in the terms of trade of the exporting country concerned. No single developing country, as a rule, has the power to influence either of these elements by its own policies. The volume of exports of many primary commodities is limited to an important extent by agricultural protectionism in developed countries, as well as by relatively low income and price elasticities of demand. Where, however, these constraints are not important, as in the case of minerals and metals, notable increases in the volume of exports have been achieved. For manufactures, too, there are widespread tariff and non-tariff barriers to developing-country exports to the markets of developed countries.

58. The terms of trade of developing countries are heavily influenced by economic conditions in the developed market-economy countries. Recession in the latter countries, by reducing demand for consumption and stock accumulation, tends to result in falls in the prices of primary commodities, whereas inflation in those countries results in increases in the prices of essential industrial products purchased by developing countries. The combination of recession and inflation in the developed market-economy countries has been a major factor in the sharp deterioration in both the merchandise trade balance and the purchasing power of exports of a large number of developing countries since the end of 1973.

*Options for international action*

59. It has been suggested in paragraph 38 above that market regulation agreements for individual commodities should include provisions for the periodic review and adjustment of the price ranges initially agreed, in the light of the effects of inflation on the prices of manufactured goods imported by producing countries. Such adjustment, which may be termed "direct indexation", could make a substantial contribution to the objective of safeguarding the real earnings of developing countries from their primary commodity exports. Essentially, it would involve provisions, within the framework of an international commodity agreement, for the adjustment of aggregate supply in relation to demand, so as to maintain the price within an agreed range in terms of its purchasing power in relation to manufactured goods.[19] Supply regulation could be supported in some cases, where bilateral or multilateral contracts between Governments or private firms cover an important part of world trade in a commodity, by appropriate provision for adjustment of the contract price to allow for inflation.

60. Direct indexation of commodity prices would, however, be feasible only for those commodities for which effective market control is established in the framework of international agreements, such control being exercised by means of supply regulation in addition to other techniques such as the operation of buffer stocks. Moreover, the degree of success in indexation by supply regulation would vary from commodity to commodity.

61. Consequently, since direct indexation by market regulation cannot be expected to cover effectively more than a certain range of commodities, consideration needs to

[16] General Assembly resolution 2626 (XXV) of 24 October 1970.

[17] The term "real export earnings" is used interchangeably with the term "purchasing power of exports".

[18] For further details of changes since 1970 in the real value of exports from developing countries, see document TD/184/Supp.2, reproduced below.

[19] Supply regulation might need to be accompanied by diversification programmes for certain commodities.

be given to complementary measures to achieve the indexation objective. Such complementary measures could consist of an arrangement under which exporting developing countries would receive financial compensation for any shortfall in the market price of specific commodity exports below an indexed reference price. Provided that the reference price was indexed to the rate of inflation in the prices of manufactures imported by the developing countries concerned, such an arrangement would constitute a system of "indrect indexation".

62. Several variants of such an arrangement would be possible, depending on the rules for reverse payments when market prices exceeded the indexed reference levels, the definition of the reference quantity on which the compensation was to be paid, the extent of waivers given to the poorest countries as regards interest or reverse payments, and so on.[20]

63. It would be feasible to include provisions for indirect indexation by compensatory payments in an international commodity agreement. In such cases, the compensatory payments would have to be linked to the adoption of policies designed to remedy the long-term problems, as a form of adjustment assistance.

64. A general system of indirect indexation by compensatory payments could also be envisaged covering a wide range of commodities within a single scheme, whether or not they were subject to international commodity agreements. Such a system would, however, require a large central fund and would involve detailed and complex intergovernmental negotiation. One particular problem would be whether donations to such a central fund by developed countries would be counted as part of their official development assistance programme, and so be deducted from other forms of aid.

65. Anoter possible approach to a financial compensation system to support the indexation provisions of international commodity agreements would be to relate the compensatory payments to the shortfall, below agreed reference levels, in the aggregate export earnings of individual developing countries from a selected group of commodities, or even from their total commodity exports. As with a comprehensive scheme for indirect indexation, a country-oriented compensation arrangement would require the prior establishment of a central fund, the finance involved depending on the range of commodities and countries to be covered, the indexed reference levels of export earnings, whether there would be full or partial compensation for shortfalls in export earnings below the reference levels, and the rules governing repayment.[21]

66. Moreover, neither a scheme of indirect indexation, nor one oriented to compensation for individual country export shortfalls, can be regarded as offering solutions to the fundamental problems of the world commodity economy. These underlying problems can be dealt with only by a co-ordinated set of positive commodity-market management measures, such as those proposed in the integrated programme, tailored specifically to the particular characteristics of individual commodity markets. None the less, compensatory payments schemes of one kind or another have a useful role as supporting instruments in a comprehensive attack on the commodity problem. The Conference may wish to consider the role that financing arrangements could usefully play in support of the integrated programme, in order to preserve the purchasing power of exports from developing countries, and make appropriate recommendations.

### C. Marketing and distribution systems

67. The institutional arrangements for the marketing and distribution of the primary commodity exports of developing countries have an important bearing on the benefit which these countries derive from their export trade, as well as on their degree of control over the exploitation of their natural resources. The technical characteristics of the marketing and distribution systems vary considerably among the various primary commodity markets. For some, sales at auctions are a central feature, while for others much of the trade is handled under medium or long-term contracts, or consists of "captive" trade within the same firm or financial entity.

68. A major feature of the post-war development of the marketing and distribution of the primary commodity exports of developing countries has been the growing influence of the large transnational corporations based in developed countries. These corporations now control, in one form or another, a substantial proportion of the foreign trade of developing countries. In somes cases, the transnational corporations or their affiliates have also become producers of primary commodities in developing countries, so that they are able to transfer commodities to the parent company at internal book-keeping prices which maximize the global profit of the multinational operation as a whole.

69. The transnational corporations involved in the commodity trade of developing countries can generally exercise considerable bargaining power, since they control, singly or taken together, the international marketing and distribution network, while they typically have to deal with a large number of competing sellers of the commodity in developing countries. Where transnational corporations are substantially involved in the export trade of developing countries, the return to the individual producer has been generally inadequate in real terms. For a range of such commodities for which data are available, the share of developing countries in the final consumer price is less than 25 per cent,[22] indicating that the greater part of the value added in the production and distribution of food and raw

[20] See document TD/184/Supp.2 below for a discussion of possible variants.

[21] For a detailed discussion of the issues involved, see document TD/184/Supp.2 below in which the main features of the Stabex scheme of financial compensation set up under the Lomé Convention are also examined.

[22] For details, see the study by the UNCTAD secretariat entitled "Proportion between export prices and consumer prices of selected commodities exported by developing countries" (TD/184/Supp.3 and Corr.1).

materials accrues to firms, often vertically integrated, domiciled in developed countries.

70. For many commodity markets dominated by transnational corporations, the situation is characterized by competition in the final product market combined with a monopsonistic position of each corporation as buyer of the commodity from developing country producers. As a result, prices are kept at competitive levels in consumer countries, while the need of the transnational corporation to maximize its global profit provides the incentive for it to use its superior bargaining power to keep the remuneration of the producers in developing countries at a relatively low level.

71. The geographical diversification of the production and trading interests of the transnational corporations over the past decade has provided these firms with greater flexibility in most global operations. The ability to switch to alternative sources of supply confers great bargaining power on a transnational corporation buying in a given developing country. The development of effective countervailing power on the part of the producers cannot therefore be based on action by individual countries alone.

72. In recent years, there have been a number of cases of co-operative action taken by groups of producing countries to increase their bargaining power in their economic relations with transnational corporations and to enhance the degree of their participation in the international marketing and distribution of their commodity exports. In some cases, increased participation may be gained by joint ventures with the transnational corporations concerned. In other cases, a more equitable share of the benefits of trade may be secured through the pursuit of uniformly applied fiscal policies by Governments of producing countries. In some situations, a more radical approach would involve the purchase, either in full or to an extent sufficient to provide policy control, of existing foreign enterprises which market the commodity exports of developing countries.

73. In the light of this and of the related issues indicated in the note by the UNCTAD secretariat on the subject[23] and on the basis of the results so far obtained by the studies referred to in that document, in particular the in-depth studies of the marketing and distribution systems for particular commodities undertaken by the UNCTAD secretariat, the Conference may wish to make recommendations for future work in this important area.

### D. Role of producer associations

74. Increased co-operation among commodity-producing countries, both unilaterally and in conjunction with consuming countries, will be needed to bring the integrated programme to fruition. The producers have a potentially key role, because most of the instruments envisaged in the programme are capable of activation by the producers themselves. Export quotas under existing international agreements have been operated essentially under agreement among producers, the role of consuming countries being to "police" their implementation. Again, the international buffer stocks so far established have been financed almost entirely by the producing countries themselves.

75. More effective and more comprehensive regulation of primary commodity markets will require closer co-ordination of the interests of the producing countries. The establishment of producer associations is essentially a recognition of this need. Such associations (some of which represent developed, as well as developing, producing countries) exist for a range of important commodities of export interest to developing countries. By the formulation and implementation of common policies, the activities of producer associations can introduce an element of countervailing power to the market strength currently exercised by transnational corporations in a number of primary commodity markets. Thus, a better balance of market forces should emerge, one which allows developing producing countries to retain a more equitable share of the benefits of international commodity trade than is the case at present.

76. In addition, producer associations could play a central role in the formulation of a suitable package of measures to be applied in the regulation of the commodity markets with which they are concerned. Such preparatory work would facilitate the series of negotiations on individual commodities among all interested trading countries, both producers and consumers, and would materially contribute to the speedy conclusion of such negotiations.

## CHAPTER IV

## *Issues before the Conference*

77. A decision by Governments is now required as to whether a new and comprehensive attack on the commodity problem is to be instituted and, if so, what the objectives, principles and techniques of such a new programme should be.

78. Should the Conference decide to proceed broadly on the lines proposed for the integrated programme, as set out in chapter II above, agreement would also have to be reached on the following points in order to give practical form to the new initiatives:

(*a*) The commodities to be covered;

(*b*) A commitment to negotiate the establishment of a common fund;

(*c*) The procedures to be followed in the negotiations, both as regards individual commodities and as regards the common fund;

(*d*) Appropriate recommendations as regards multilateral machinery for compensatory arrangements, and as regards the multilateral trade negotiations;

(*e*) The establishment within UNCTAD of an *ad hoc* intergovernmental co-ordinating committee to give impetus

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[23] "Marketing and distribution systems for commodities of export interest to developing countries" (TD/184/Supp.4 and Corr.1).

to the negotiations, to review their progress and to deal with major policy problems which may arise;

(*f*) A time-table covering the integrated programme as a whole.

79. In addition, the Conference should consider the various options open for preserving the purchasing power of exports from developing countries, and make appropriate recommendations.

80. The Conference should also consider the policy issues in the field of the marketing and distribution of the commodity exports of developing countries, and make recommendations concerning the futher work of UNCTAD in this area.

# DOCUMENT TD/184/Supp.2*

## Preservation of the purchasing power of developing countries' exports

### *Report by the UNCTAD secretariat*

[*Original: English*]
[*5 March 1976*]

CONTENTS



*ANNEXES*



* Incorporating document TD/184/Supp.2/Corr.1.

*LIST OF TABLES*



*LIST OF CHARTS*



CHAPTER I

## *The problem and the policy options*

1. In the preamble to its resolution 3362 (S-VII), the General Assembly reaffirmed "the imperative need of redressing the economic imbalance between developed and developing countries", and in section I, paragraph 5 thereof, it noted that "a number of options are open to the international community to preserve the purchasing power of developing countries" and called on the Secretary-General of UNCTAD to continue, on a priority basis, "to study direct and indirect indexation schemes and other options with a view to making concrete proposals before the Conference at its fourth session".

2. This interest on the part of the General Assembly has been reflected in other international discussions. It has been aroused chiefly by the acceleration of world-wide inflation since 1969. During the 15-year period 1954-1969, the annual world rate of inflation, as measured by the rise in the United Nations index of prices of manufactured goods exported by developed market-economy countries, was on average slightly more than 1 per cent per annum. In the following three years, however, the rate accelerated to an average of about 7 per cent; in 1973 and 1974 it rose to an annual average of 18 per cent but is estimated to have declined somewhat in 1975. It is generally expected that the world rate of inflation will decline further from these unprecedentedly high rates, though not to the levels of slightly more than 1 per cent per annum which prevailed during the post-war years up to 1969. Even if the rate fell to a stable level of about 7 per cent per annum, however, inflation at that rate would still tend to depress the import purchasing power of developing countries. The present report, therefore, considers how this influence might be counteracted and how its effects might be mitigated, especially for the world's poorest countries.

3. Two points must first be made about the concept of preserving the purchasing power of developing countries. One is that the import purchasing power of any country depends not only on the prices of its imports but also on the amounts of its foreign exchange availabilities. For most developing countries, merchandise exports play the largest and the crucial role in determining the level of these availabilities, with primary commodities accounting for the bulk of merchandise exports.

4. The second point is that the preservation of the purchasing power of developing countries must be understood to mean the preservation of an adequate rate of growth of that purchasing power and not merely its maintenance at an unchanging level. In paragraph 17 of the International Development Strategy for the Second United Nations Development Decade,[1] the General Assembly recognized that reaching the target of an average annual rate of growth of at least 6 per cent in the gross product of developing countries would require the expansion of the exports of these countries at an average rate somewhat higher than 7 per cent per annum. By implication, this

[1] General Assembly resolution 2626 (XXV) of 24 October 1970.

meant a rate of 7 per cent in "real" terms, i.e. in terms of import purchasing power.

### A. Trends in the purchasing power of developing countries' exports

5. The first four years of the Second United Nations Development Decade (1971-1974) were exceptionally favourable ones for the export trade of developing countries as a whole. In 1972 and 1973, the volume of exports from these countries rose strongly, while from 1972 to 1974 commodity prices rose to all-time record levels, at least in nominal terms. As a result, the nominal export earnings of developing countries other than OPEC members rose strongly from 1970 to 1974. In the same period, however, world inflation accelerated markedly and there were steep rises in world prices of manufactured goods, fertilizers, fuels and basic foodstuffs. The effect of these price increases was to convert a nominal rate of growth of the export earnings of the non-OPEC developing countries of 27 per cent per annum on average in 1970-1974 to a rate of growth of only 6 per cent per annum in terms of their import purchasing power.

6. The benefits of this rise in exports, moreover, were very unevenly shared. Even if the increases in prices of food, fertilizers and fuels are ignored, and the purchasing power of exports is measured in relation to changes in world prices of manufactured goods only (which makes the export experience of developing countries during the period seem more favourable than it actually was), a substantial number of developing countries recorded increases in real export earnings of less than 7 per cent per annum from 1970 to 1974 and some showed actual declines in earnings (see table 1 below). The 39 developing countries concerned accounted for well over one-third of the aggregate export earnings of non-OPEC developing countries in 1970 and for more than one-half of the total population of these countries in the same year. On average, the exports of these 39 countries showed an increase in terms of purchasing power over imports of manufactures of no more than 1.7 per cent per annum in this period, in spite of the relatively favourable trade conditions.

7. These conditions, moreover, may well prove to have been the most favourable of the decade. In 1975, virtually all developing countries experienced severe falls in their real export earnings as a result of the economic recession in the industrialized countries, the decline in commodity prices and continuing world inflation, and in 1976 and 1977 only a modest recovery in these earnings is in prospect.[2]

8. Trends in the export earnings of individual developing countries reflect to a large extend trends in the value of their exports of primary commodities. As is shown in table 2 below, the real value (in terms of purchasing power over imports of manufactures) of developing countries' aggregate exports of primary commodities, other than fuels, has grown at an average rate of only some 4.5 per cent per annum in recent years and at the even slower rate of 3.5 per cent in the longer period since the early 1960s. In the case of some commodities (e.g. bananas, bauxite, jute, manganese ore, rice, tea, wine and wool), the purchasing power of these exports actually declined from 1967-1969 to 1972-1974.

### B. Constraints on the expansion of the purchasing power of developing countries' exports

9. The trend in the purchasing power of a country's exports of a given product depends partly on the trend in the quantity exported and partly on the movement of the country's terms of trade with respect to it, i.e. the movement of the ratio between the export price of the product and the prices it has to pay for its imports. While, in principle, the quantity of exports of any product can be determined or influenced to some extent by Governments, there are in practice many constraints on the ability of developing countries to improve the trend of their real export earnings by expanding the volume of their exports of either primary commodities or manufactured goods.

10. As far as manufactured goods are concerned, there are, apart from the technical and economic problems associated with industrialization, widespread non-tariff barriers to exports of the more labour-intensive goods, in the production of which developing countries generally enjoy a comparative advantage. In the case of primary commodities, on which most developing countries are still dependent for the great bulk of their export earnings, the constraints are even greater than for manufactured exports. In addition to agricultural protectionism in developed countries, there is the fact that low income and price elasticities of demand in these countries for many commodities (e.g. cereals, sugar, coffee, cocoa, tea and tin) severely limit the extent to which developing countries as a whole can expand their exports of them without at the same time bringing about an offsetting deterioration in their terms of trade.

11. Individual developing countries have nevertheless some potential ability to increase their nominal foreign exchange earnings by expanding the volume of their exports of certain commodities in relatively elastic demand. On the other hand, an individual developing country has virtually no control whatever over its terms of trade, which are constantly under pressure from factors such as overproduction of some commodities and replacement of other by substitutes, which tend to depress export prices, and inflation in industrialized countries, which tends to raise import prices. A further factor in some cases, notably those of bananas and certain ores and metals, is the operations of transnational corporations, which tend to keep the prices of their exports from developing countries at relatively low levels.[3] As shown in table 2, the terms of trade[4] for a

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[2] See the report by the UNCTAD secretariat entitled "Recent trends in international trade and development: world economic outlook, 1976-1977" (TD/186).

[3] See document TD/184 above, chapter III.C.

[4] Calculated as the unit value of aggregate exports from developing countries divided by the United Nations index of prices of manufactured goods in world trade.

TABLE 1

**Trends in the purchasing power over imports of manufactured goods of exports of selected developing countries, 1970-1975**

| | *Change in real export earnings*[a] | | |
|---|---|---|---|
| | *1970-1974 (average annual rate)* | *Jan.-June 1975/ Jan.-June 1974* | *Value of exports 1970* |
| | *(Percentage)* | | *(Million dollars)* |
| United Republic of Cameroon | 6.7 | -23.3 | 232 |
| Colombia | 6.3 | -33.8 | 743 |
| Malawi | 6.1 | -13.3 | 60 |
| Jamaica | 6.0 | 4.3 | 342 |
| Chile | 6.0 | .. | 1 234 |
| Guyana | 6.0 | .. | 133 |
| Upper Volta | 5.9 | .. | 18 |
| Egypt | 5.8 | -22.5 | 762 |
| Kenya | 5.6 | -11.8 | 305 |
| Guatemala | 5.5 | .. | 298 |
| El Salvador | 5.4 | 0.6 | 236 |
| India | 5.1 | - 3.5 | 2 026 |
| Costa Rica | 4.2 | -13.5 | 231 |
| Panama | 4.1 | 12.5 | 110 |
| Mauritania | 4.0 | .. | 89 |
| Haïti | 3.0 | .. | 40 |
| Burma | 2.5 | -43.0 | 107 |
| Liberia | 1.6 | -13.1 | 236 |
| Zaïre | 0.9 | .. | 790 |
| United Republic of Tanzania | 0.9 | -34.3 | 259 |
| Niger | 0.8 | .. | 32 |
| Ghana | 0.8 | 1.0 | 458 |
| Uruguay | 0.8 | -32.2 | 233 |
| Central African Republic | -0.8 | .. | 31 |
| Sri Lanka | -1.0 | - 5.3 | 342 |
| Pakistan | -1.4 | -26.9 | 734 |
| Honduras | -1.5 | -29.0 | 172 |
| Rwanda | -2.1 | -11.1 | 25 |
| Peru | -2.3 | -16.7 | 1 044 |
| Cyprus | -2.6 | -38.8 | 107 |
| Sierra Leone | -3.0 | -9.3 | 103 |
| Zambia | -3.1 | -58.9 | 1 001 |
| Laos | -3.8 | .. | 7 |
| Burundi | -5.7 | .. | 24 |
| Chad | -6.8 | .. | 30 |
| Sudan | -7.3 | 35.0 | 298 |
| Uganda | -8.5 | -39.2 | 282 |
| Mali | -9.6 | 36.4 | 33 |
| Bangladesh | -19.5 | 2.9 | 519 |
| Total, 39 countries | 1.7 | .. | 13 726 |

*Sources* : IMF, *International Financial Statistics;* United Nations, *Monthly Bulletin of Statistics.*

[a] Based on actual values of exports in current dollars deflated by the United Nations index of prices of manufactured goods in world trade. Countries are listed in descending order of the change in real export earnings, 1970-1974.

number of major commodities exported by developing countries have shown declining trends since 1960-1962.

12. The terms of trade of the commodity exports of developing countries are shown in an over-all and longer-term perspective in table 3[5] and chart 1 below, in which recent computations made by the UNCTAD secretariat and the World Bank based on a wide, but somewhat different, coverage of commodities are compared. During the period 1953 – 1972, both the series shown in the table, which cover the bulk of the primary commodity exports of developing countries other than fuel, evidence fluctuations around a distincly downward trend. From the UNCTAD series, a downward trend of 2.0 per cent per annum, and from the World Bank series one of 1.7 per cent per annum, are obtained, suggesting strongly that over this period there

[5] This table is also included in the report by the Secretary-General of UNCTAD on indexation *(Official Records of the Trade and Development Board, Fifteenth Session (first part), Annexes,* agenda item 5, document TD/B/563, table 3).

TABLE 2

**Trends in the purchasing power over imports of manufactured goods of developing countries' exports of primary commodities other than fuels**

| | *Exports in 1972-74 (annual average)* | *Real exports*[a] | | | |
|---|---|---|---|---|---|
| | | *1960-1962 to 1972-1974* | | *1967-1969 to 1972-1974* | |
| | | *Unit value* | *Value* | *Unit value* | *Value* |
| | *(Million dollars)* | *(Per cent change per annum)* | | | |
| All primary commodities other than fuels[b] . . . . | 42 000 | . . | 3.6 | . . | 4.7 |
| *of which:* | | | | | |
| Sugar (raw) . . . . . . . | 3 718 | 3.1 | 5.6 | 8.2 | 13.4 |
| Beef and veal . . . . . . | 940 | 6.0 | 10.7 | 8.8 | 12.4 |
| Sisal. . . . . . . . . . . . | 181 | 1.5 | -0.1 | 14.2 | 10.3 |
| Zinc (ore and metal) . . | 298 | 4.4[c] | 7.3 | 6.2[c] | 10.2 |
| Pepper . . . . . . . . . . | 148 | -2.0 | 3.2 | 4.2 | 5.4 |
| Tungsten (concentrates) | 63 | 7.9 | 12.7 | -5.4 | 4.9 |
| Bauxite, alumina and aluminium . . . | 786 | -1.8[d] | 7.3 | -3.0[d] | 4.6 |
| Tobacco (unmanufactured). . | 722 | -2.2 | 2.2 | -2.6 | 4.5 |
| Wheat. . . . . . . . . . . | 287 | 0.1 | 1.6 | 2.9 | 3.7 |
| Rubber. . . . . . . . . . | 1 667 | -5.0 | -3.0 | -1.2 | 2.6 |
| Abaca. . . . . . . . . . . | 27 | -2.2 | -6.1 | 6.1 | 2.5 |
| Cotton . . . . . . . . . . | 2 187 | 0.4 | 2.2 | 2.4 | 2.1 |
| Lead (ore and metal) . . | 164 | 2.3[c] | 1.8 | 2.5[c] | 2.1 |
| Coffee . . . . . . . . . . | 3 805 | 0.2 | 2.3 | 1.1 | 1.8 |
| Maize. . . . . . . . . . . | 681 | 1.2 | 7.1 | 2.7 | 1.7 |
| Iron ore . . . . . . . . . | 1 302 | -3.8 | 3.9 | -4.4 | 1.6 |
| Copper (ore and metal). | 3 702 | 3.5[c] | 6.9 | -2.9[c] | 1.2 |
| Cocoa. . . . . . . . . . . | 1 061 | 0.9 | 2.4 | -1.0 | 1.1 |
| Tin (ore and metal). . . | 881 | 2.7[c] | 3.8 | 1.4[c] | 1.0 |
| Oranges[e] . . . . . . . . . | 227 | -0.6 | 4.2 | -4.7 | 0.5 |
| Wine . . . . . . . . . . . | 165 | -1.8 | -6.3 | – | -0.4 |
| Bananas . . . . . . . . . | 571 | -2.5 | 1.7 | -5.8 | -1.3 |
| Manganese ore. . . . . . | 127 | -5.6 | -2.6 | -5.4 | -2.6 |
| Rice. . . . . . . . . . . . | 714 | -0.2 | -0.7 | -0.6 | -4.0 |
| Tea . . . . . . . . . . . . | 622 | -5.2 | -3.3 | -7.3 | -5.7 |
| Jute. . . . . . . . . . . . | 229 | -3.7 | -1.5 | -5.2 | -5.9 |
| Wool . . . . . . . . . . . | 164 | -0.3 | -6.4 | 4.3 | -5.9 |

*Sources:* FAO, *Trade Yearbook* and *Commodity Review and Outlook*; United Nations, *Monthly Bulletin of Statistics;* and national statistics.

[a] Values and unit values in current dollars divided by the United Nations index of prices of manufactured goods in world trade.

[b] SITC sections 0 + 1 + 2 + 4 + division 68.

[c] Metal only.

[d] Alumina only.

[e] Including tangerines and clementines.

was an annual decline of close to 2 per cent in the terms of trade of the developing countries in commodities/manufactures.

13. The period covered by these calculations excludes the commodity price boom occasioned by the Korean war, as well at the more recent price boom of 1972-1974, since the inclusion of these two periods would have distorted the calculation of the trend.[6] A calculation of the trend in the terms of trade of the commodity exports of developing countries carried out for the period 1950-1974 was in fact statistically less significant than the corresponding calculation for 1953-1972, but it also showed a definite, though less pronounced, decline.

14. It should also be noted that the short-lived commodity price boom of 1972-1974 was largely over in 18 months and that in the last quarter of 1975 the UNCTAD index of market prices of the primary commodity exports of developing countries[7] (see chart 2) was 23 per cent lower than its peak level in the second quarter of 1974. Moreover, inflation continued unabated, so that the deflated version of this index, which represents the developing countries' commodities/manufactures terms of trade,

[6] This is because two major price peaks, but only one trough, would have been covered by the calculation.

[7] See UNCTAD, *Monthly Commodity Price Bulletin.*

TABLE 3

**Comparison of UNCTAD and World Bank indices of the terms of trade for developing countries of primary commodities, 1953-1972**

*(1963 = 100)*

| Year | UNCTAD: Index of commodity export unit value[a] (1) | UNCTAD: Index of unit values of exported manufactured goods[b] (2) | UNCTAD: Commodities/manufactures terms of trade (3) (= (1) divided by (2)) | World Bank Commodities/manufactures terms of trade[c] (4) |
|---|---|---|---|---|
| 1953 . . . | 118 | 94 | 126 | 122 |
| 1954 . . . | 127 | 92 | 138 | 137 |
| 1955 . . . | 122 | 92 | 133 | 130 |
| 1956 . . . | 117 | 95 | 123 | 128 |
| 1957 . . . | 114 | 98 | 116 | 118 |
| 1958 . . . | 108 | 97 | 111 | 111 |
| 1959 . . . | 103 | 96 | 107 | 110 |
| 1960 . . . | 104 | 98 | 106 | 106 |
| 1961 . . . | 100 | 99 | 101 | 98 |
| 1962 . . . | 95 | 99 | 96 | 97 |
| 1963 . . . | 100 | 100 | 100 | 100 |
| 1964 . . . | 106 | 101 | 105 | 109 |
| 1965 . . . | 103 | 103 | 100 | 109 |
| 1966 . . . | 105 | 106 | 99 | 109 |
| 1967 . . . | 102 | 107 | 95 | 100 |
| 1968 . . . | 106 | 107 | 99 | 102 |
| 1969 . . . | 110 | 110 | 100 | 104 |
| 1970 . . . | 115 | 117 | 98 | 102 |
| 1971 . . . | 107 | 124 | 86 | 89 |
| 1972 . . . | 113 | 134 | 84 | 87 |

*Sources:* United Nations, *Monthly Bulletin of Statistics*; FAO, *Trade Yearbook;* national statistics; Commodities and Export Projections Division of the World Bank.

[a] Based on unit values of developing countries' exports of coffee, cocoa, tea, maize, rice, sugar, bananas, copra, coconut oil, palm oil, groundnut oil, cotton, jute, sisal, natural rubber, wool, copper, tin, lead, zinc, bauxite, alumina, aluminium, iron ore, phosphate rock, manganese ore and on unit values of world exports of oranges (and tangerines) and tobacco. The index has been weighted by 1963 values of exports from developing countries. In 1963, the total export value of these selected commodities from developing countries represented 67.5 per cent of the total value of all primary commodities (excluding petroleum) exported by developing countries.

[b] United Nations index of unit values of manufactured goods exported by developed market-economy countries.

[c] The series covers 34 commodities, excluding petroleum.

showed an even greater fall, estimated provisionally at around 30 per cent.

15. The failure of many non-oil-exporting developing countries to achieve adequate long-run rates of growth in the purchasing power of their export earnings has been a serious constraint on their ability to finance the inflow of imports necessary to the fulfilment of their development programmes without excessive recourse to public borrowing. This constraint is reflected in part in their mounting burden of external public debt, the servicing of which in 1975 accounted for some 14 per cent of the export earnings of these countries.

### C. The policy options

16. For most developing countries, solutions to the purchasing power problem which are fully consistent with the principle of self-reliance cannot be found in the short term, since they must be sought mainly through diversification and industrialization. In the meantime, most developing countries need assistance and support from developed countries for the maintenance of adequate rates of growth in their real export earnings, including assistance in the form of specific measures for preserving their purchasing power from erosion by world inflation.

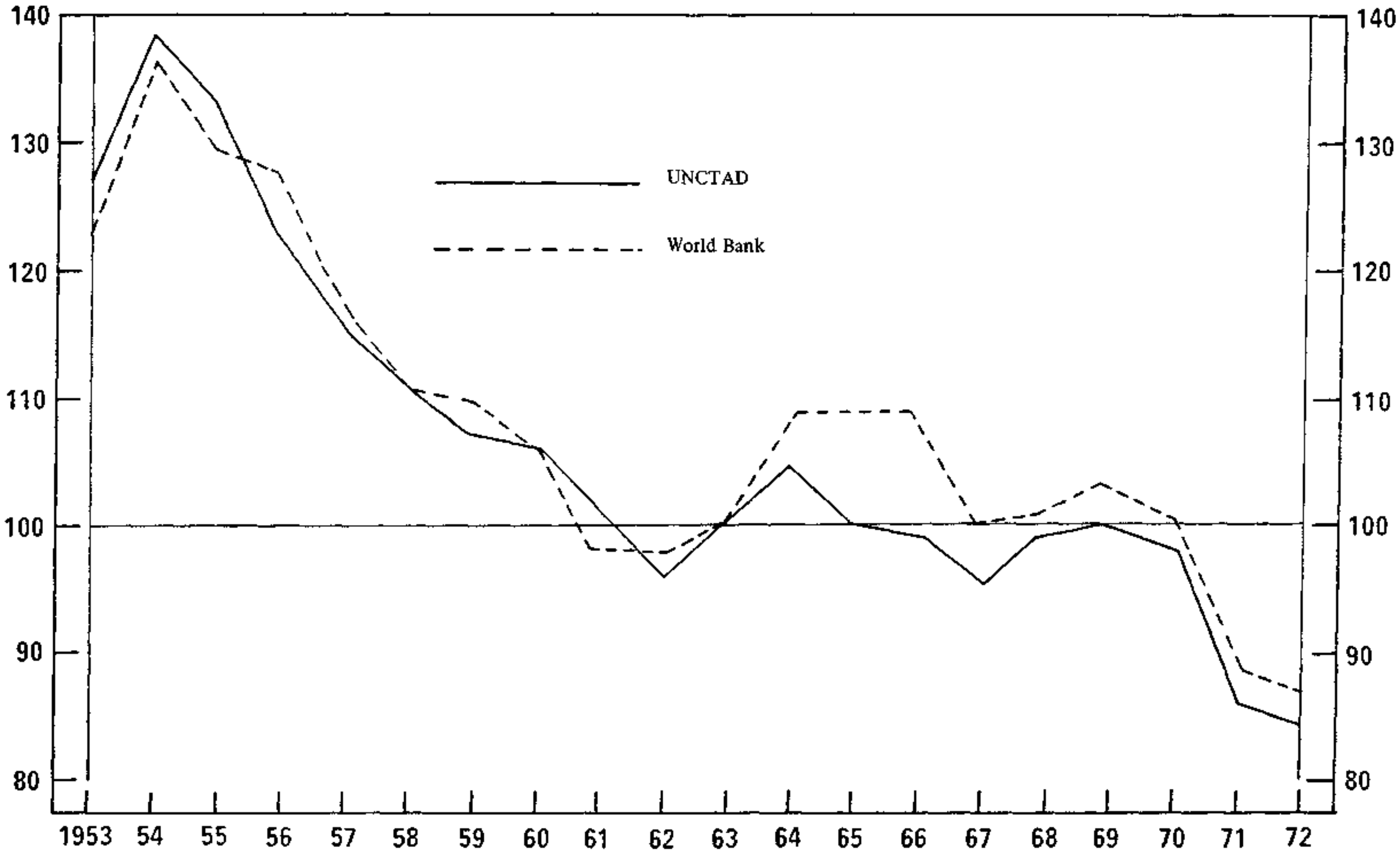
17. Among the types of assistance required is action by individual developed countries to improve access to their protected markets for the primary and processed products exported by developing countries. Such assistance would be all the more effective in preserving the purchasing power of the latter countries if it was given in the form of arrangements for guaranteeing the purchase of specific quantities of particular products at prices fixed in real terms.

18. Fully effective protection of the purchasing power of developing countries' exports, however, would require more comprehensive action of an international character. An important constituent of such action would be the

CHART 1

**Comparison of UNCTAD and World Bank indices of the terms of trade for developing countries of primary commodities, 1953-1972**

*(1963 = 100)*



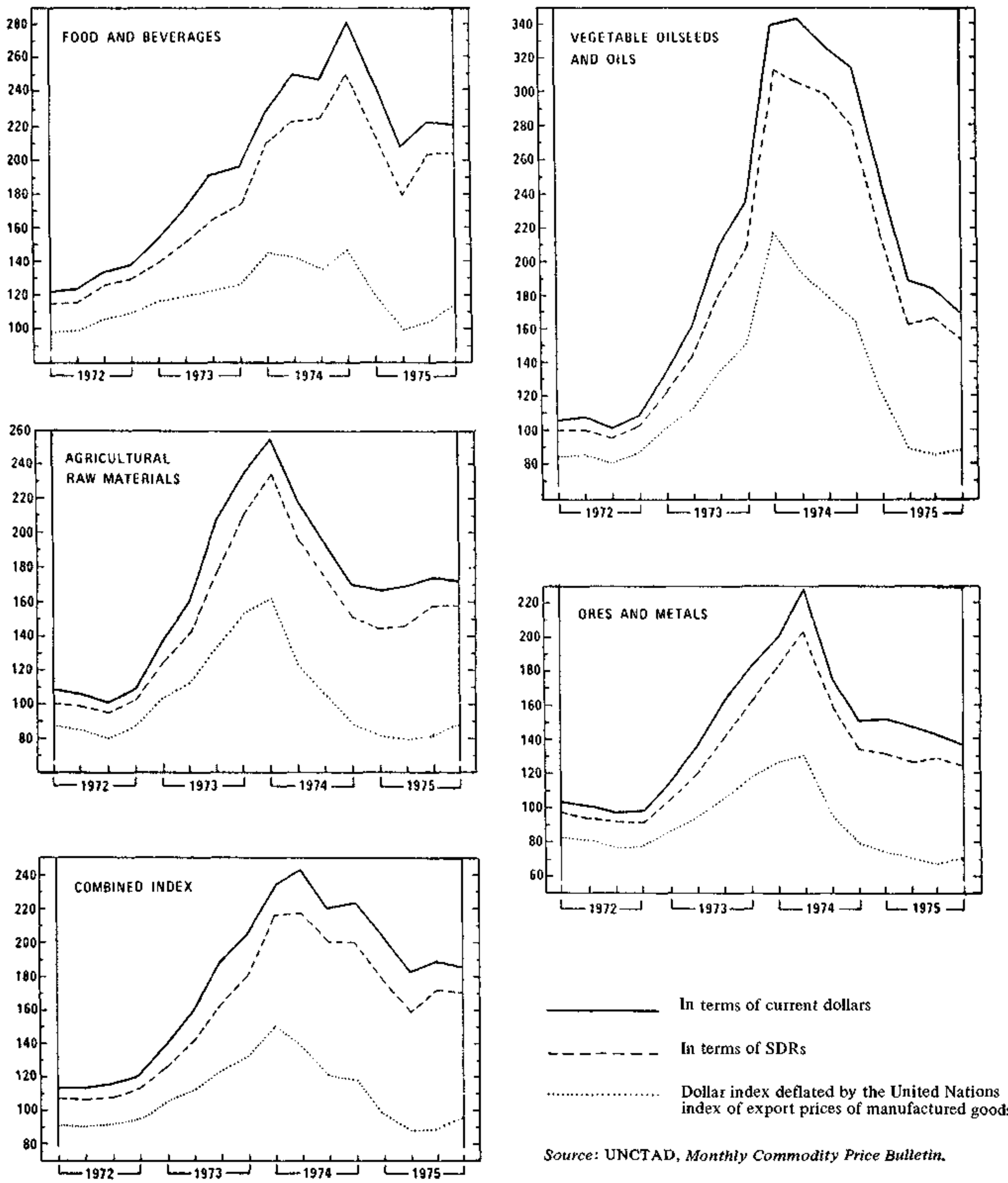

*Source:* Table 3.

CHART 2

**Quarterly indices of market prices of primary commodities, 1972-1975**

*(1968 = 100)*

(Indices of prices in dollars and SDRs and deflated indices)




*Source*: UNCTAD, *Monthly Commodity Price Bulletin.*

implementation of the integrated programme for commodities proposed by the Secretary-General of UNCTAD.[8] The stabilization at remunerative levels of prices of a wide range of commodities of export interest to developing countries envisaged in these proposals, as well as the proposed improvements in existing arrangements for the compensatory financing of fluctuations in the export incomes of individual developing countries,[9] would help considerably in the short term.

19. Given the unfavourable longer-term market prospects for many commodities, however, as well as the likelihood of continuing world inflation at a relatively rapid rate, international measures for the stabilization of commodity prices would need to be complemented by others designed more specifically to support the real prices of particular commodities and/or the real export incomes of individual developing countries. The possible forms of action, including action under the integrated programme, would thus be as follows:

(*a*) Action to maintain the effective prices of particular commodities at target levels in real terms, i.e. at target levels "indexed" to the rate of inflation, by:

- (i) Regulation of actual market prices (direct indexation) within individual commodity arrangements:
- (ii) Financial transfers (indirect indexation) within individual commodity arrangements or under a comprehensive scheme;

(*b*) Action to support the real export incomes of individual developing countries by:

- (i) Financial compensation for shortfalls from target real levels in earnings from the export of particular commodities (a system analogous to the Stabex system under the Lomé Convention);[10]
- (ii) Financial compensation for shortfalls in export incomes from planned real levels (a form of "supplementary financing").

## CHAPTER II

## *Indexation*

20. In earlier UNCTAD studies on the subject of indexation,[11] reference was made to two distinct types of indexation: "direct" and "indirect". It was also noted that one pre-condition for the implementation of either type of indexation would be the existence of an internationally acceptable measure of changes in the price of the goods imported by the countries exporting each commodity concerned. The UNCTAD secretariat is at present engaged in a joint effort with the Statistical Office of the United Nations to improve existing measures of such price changes. A progress report on this work is contained in annex I to the present report.

21. As was pointed out in the earlier studies, direct indexation would be made effective through direct regulation of market prices and hence "would require the establishment of appropriate mechanisms to adjust the prices at which international transactions in indexed commodities would be carried out".[12] Such mechanisms might be established by producers' associations or under international commodity agreements, or might take the form of bilateral or multilateral long-term contracts. Indirect indexation, by contrast, would be made effective through financial transfers, without intervention in the working of commodity markets. Before considering each of these types of indexation in detail, it is necessary to examine how either type could be employed for the purpose of preserving the purchasing power of developing countries' exports.

### A. Objectives of indexation

22. Indexation is an agreed procedure for the automatic adjustment of a nominal target price or price range, so as to ensure that, in conditions of inflation, this always expresses correctly in current money units the real target price or price range specified for the commodity concerned. In conditions of world inflation, therefore, indexation is a procedure particularly relevant to the objective of preserving the purchasing power of developing countries through the defence of the terms of trade of their export commodities.

23. However, the extent to which indexation could protect the terms of trade of any commodity would depend essentially on the real price objective of the arrangement established for the commodity. The most modest objective which might be envisaged for any arrangement incorporating indexation, direct or indirect, would be the stabilization of the price of the commodity concerned, in real terms, around its long-run market equilibrium trend. Such stabilization would require periodic adjustments, at intervals of a few years, of the negotiated price range under the arrangement, in order to keep it in line with the trend. Between these "adjustments for trend", however, at invervals of perhaps one year, or more or less, depending on the rate of inflation, automatic indexation adjustments would be made in the nominal price range in order to keep it constant in real terms. Thus, assuming that it was maintained within its indexed range, the effective price of the commodity would be kept stable in real terms during at least the period between "adjustments for trend." Such stabilization would have considerable advantages for coun-

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[8] See document TD/184 above.

[9] It should be noted that the proposals with regard to the compensatory financing of export fluctuations seek to deal only with the problem of short-term instability in real export earnings and not with the longer-term problem of maintaining these earnings at adequate levels (*ibid.*, paras. 42-45).

[10] Convention between the European Economic Community and 46 African, Caribbean and Pacific States, signed at Lomé, Togo, on 28 February 1975. Stabex is the code name given to the system for the stabilization of export receipts as applied under the Convention (see para. 53 *et seq.* below).

[11] *Official Records of the Trade and Development Board, Fourteenth Session (first part), Annexes*, agenda item 13, document TD/B/503; TD/B/503/Supp.1 and Supp.1/Add.1; TD/B/C.1/168; *Official Records of the Trade and Development Board, Fifteenth Session (first part), Annexes*, agenda item 5, document TD/B/563.

[12] TD/B/503/Supp.1, para. 155.

tries exporting the commodity concerned, since it would provide assurance that the purchasing power of each unit of the commodity exported would be maintained within certain limits, at least in the short term.

24. If the equilibrium trend of a price was a constant or rising one in real terms, then indexation would promote the stability of the effective real price in the longer, as well as in the shorter, run and, in contrast to the situation where a nominal price target is held too rigidly under continuing inflation, could promote long-term balance between supply and demand. In these circumstances, in fact, failure to index in conditions of inflation would tend to increase the magnitude of the upward revisions of the nominal price range which would have to be made on the occasion of each adjustment for trend. If the real market price of a commodity was persistently tending to decline, however, direct or indirect indexation associated with the objective of effectively stabilizing that price around its trend would not preserve the unit purchasing power of the commodity for longer than the very short term. Indexation in these circumstances, in fact, would tend to increase the magnitude of the downward revisions of the nominal price range which would have to be made on the occasion of each adjustment for trend. In the case of any commodity experiencing a weak market price trend in real terms, therefore, direct or indirect indexation could preserve (or lessen the decline in) its unit purchasing power in the medium or longer run only if it was applied within an arrangement designed to improve the trend of the effective real price of the commodity.

25. It is at this point that the essential difference between direct and indirect indexation emerges. Since the latter is made effective solely through financial transfers, the only constraint on the extent to which the real prices of individual commodities can be effectively maintained or improved in the medium or longer run through indirect indexation arrangements lies in the amount of finance available for such arrangements. By contrast, since direct indexation is applied in the context of arrangements for regulating the actual market prices of commodities, the extent to which it can be associated with the improvement of the trend of these prices in real terms depends on the conditions of demand and supply for each commodity concerned. In the remainder of the present chapter, the applicability of each type of indexation is considered in more detail.

### B. Direct indexation

26. If the objective of an arrangement incorporating direct indexation were merely the stabilization of the real price of a commodity around its market equilibrium trend, the necessary regulation of supply might be achieved, in the case of a storable commodity, by a buffer stock alone, provided it was endowed with adequate resources. If, on the other hand, the objective of such an arrangement were the improvement of the trend of the real price (which, as already pointed out, would be necessary in many cases for preserving unit purchasing power), then the arrangement would have to incorporate provisions for the concerted management of supply by producers, whether or not a buffer stock was established.

27. This is because the only way in which the market price of any commodity can be raised and held above its equilibrium level is through concerted action by producers to ensure that the export supply of the commodity expands at a slower rate than it otherwise would. Moreover, an improvement in the price trend achieved in this way would improve the trend of earnings only if it more than offset the effect on the quantity of exports of the necessary restraint of the growth of the export supply, i.e. only if demand for the commodity was sufficiently inelastic.

28. Direct indexation arrangements with the objective of improving the price trend would not therefore be practicable or appropriate for all commodities, nor could they necessarily achieve an adequate improvement in the export purchasing power of all the commodities for which they could be established.[13] In all cases where they are feasible, however, such arrangements have the advantage, from the point of view of the exporting countries concerned, that they can, if necessary, be operated by these countries alone, without assistance from importing countries. In other words, they can in many cases form part of the developing countries' machinery to ensure collective self-reliance.

29. Arrangements of this kind could be of two basic types. One would be an arrangement which merely sought to prevent a market price from falling below a target minimum real price. This type might be established by a group of producers acting without the collaboration of consumers. If, however, consumers were parties to an arrangement with a "normative" real price objective, it is likely that they would insist on an element of stabilization, through provisions for a real price "ceiling", as well as a price "floor".

30. Direct indexation could also be applied within bilateral or multilateral contracts concluded by Governments or private firms, although such contracts would probably cover only a part of any country's total exports of a commodity. Provisions could easily be included in such contracts for the automatic adjustment of the price or price range originally agreed on, in order to take account of inflation.

#### 1. *Analysis of the implications for production*

31. Whatever type of direct indexation is envisaged, the fundamental instrument necessary to ensure that it could be made effective is supply control. It is therefore of interest to examine what the implications of direct price indexation might be for the production of a given com-

[13] The question of the commodities for which direct indexation might be feasible was considered by the Group of Experts on Indexation convened by the Secretary-General of UNCTAD in May 1975 (see *Official Records of the Trade and Development Board, Fifteenth Session (first part), Annexes,* agenda item 5, document TD/B/563, annex II).

modity over some period. In order to illustrate these implications for selected commodities on specific assumptions, econometric models were constructed for cocoa, coffee and tin. These models were then used to simulate how the markets for these commodities would work over the period 1975-1980 under various assumed policy constraints. In these simulations, the basic structural parameters of supply and demand for each commodity were assumed to remain unchanged.[14]

32. In these experiments, the implications for production of direct indexation associated with four alternative real price objectives (see table 4 below) have been measured by a single number: the percentage reduction in average annual production over the period 1975-1980 from its unrestrained level necessary to ensure supply-demand balance in the market, given indexation and a specified rate of inflation.[15] The degree of production restriction required is calculated from the increase in stocks by 1980 which would be necessary to keep supply and demand in balance with the relevant price objective if production were not restrained. The increase in stocks is measured in comparison to the level of stocks which according to the prediction in the model would have come about in 1980 in the absence of direct price indexation. If this hypothetical increment in stocks is expressed as a proportion of aggregate unrestrained production in 1975-1980, this yields the percentage by which average annual production in that period would have to fall short of its unrestrained level in order to achieve the indexation objective without an abnormal accumulation of stocks.[16] It is this percentage which is given in table 4 below, for the various cases described.

33. It will be seen from the table that the impact of direct price indexation in the simulation period varies widely among the three commodities and four objectives presented.[17] Thus, it appears that the necessary restraint on production would represent a greater proportion of average unrestrained output in 1975-1980 for tin than it would for cocoa, which in turn would be much greater than that for coffee. Moreover, as could be expected, the narrower the range within which the indexed target price is allowed to move, the greater the necessary restraint on production will be.

34. Table 4 also suggests that the extent of the necessary restraint on production in the period 1975-1980 associated with the adoption of the average 1970-1974 real price as the target would be relatively small for all three commodities, especially for coffee. However, caution must be exercised in reaching this conclusion, not only because it is based on assumptions about future demand and inflation, but also because the parameters of the production and

[14] The estimates of these parameters were made in each case on the basis of data for years up to and including 1973 and therefore do not take account of market developments since then. This fact underlines the purely hypothetical and illustrative character of the exercise. For coffee and tin, the estimates of the basic parameters naturally reflect the influence of the international arrangements which have been in operation for these commodities.

[15] It is assumed that inflation between 1974 and 1975 amounted to 9.0 per cent, and that annual inflation thereafter is at the rate of 7.0 per cent.

[16] It should be noted that restrained production, nevertheless, would in all cases rise over the period, though the increase would be less than in the case of non-restraint.

[17] In table 4, the figures in the column for objective (4) are the same as those in the column for objective (1). This is because it happens that in no case did the real price reach the ceiling which would have been imposed by this latter variant; hence, the only practical distinction between the two variants disappears.

TABLE 4

**Degree of restriction of production in 1975-1980 estimated to be required for effective direct indexation[a] of the prices of cocoa, coffee and tin**

| | *Objective of direct indexation* | | | |
|---|---|---|---|---|
| | *Stabilization around target real price[b] within a range of:* | | | |
| *Commodity* | ± 10% (1) | ± 5% (2) | *Maintenance of target real price at a constant level[b]* (3) | *Defence of minimum real price[c]* (4) |
| | *(per cent)* | | | |
| Cocoa | 6.0 | 7.1 | 8.3 | 6.0 |
| Coffee | 0.02 | 0.2 | 1.4 | 0.02 |
| Tin | 6.6 | 9.5 | 12.4 | 6.6 |

*Source:* UNCTAD secretariat calculations.

[a] The percentages shown in the table relate to the proportions by which average annual production in the period 1975-1980 would have to fall short of its unrestrained level if the specified indexation objectives were to be achieved without an abnormal accumulation of stocks.

[b] The target price over the period 1975-1980 is the average real price for the period 1970-1974, measured in 1974 dollars.

[c] The target price defined in foot-note *b* above, less 10 per cent.

consumption relationships, which have been estimated on the basis of market developments up to 1973 only, may have been altered by supply and demand developments since then. For all these reasons, the results presented in table 4 should not be regarded as predictions but merely as calculations to illustrate the implications of direct indexation.

### 2. *Analysis of the effects on trade balances*

35. In a further experiment to estimate the effect of direct indexation of a selected number of commodities on the trade balances of developing countries, use was made of one of the econometric models constructed for the purpose of the UNCTAD secretariat's first study on indexation.[18] This 87-country model, originally covering 11 commodities, was adapted to simulate the effects of direct indexation of the prices of five commodities on the net trade balance of the sample group of countries in the six years 1969-1974, using the latest data available.[19]

36. The five commodities selected were bauxite, copper, iron ore, manganese ore and tea and in each case it was assumed that the target price to be indexed, i.e. maintained in real terms, in each of the years 1969-1974 was the highest annual real unit value actually attained in that period. It was further assumed that the market price in each year was held within a range extending from 5 per cent below to 10 per cent above the indexed target price. The reasons for selecting these five commodities were, first, that all of them are in principle "indexable", inasmuch as they all appear to experience relatively inelastic conditions of demand in the medium term and, second, that the actual real unit value of each of them showed a downward trend over the period.[20]

37. The model was then used to estimate the difference which would have been made by such indexation to the net trade balance of the sample of 87 developing countries and territories covered by the model in each of the years 1969-1974. The estimates obtained from the model take account not only of the increase in export revenue which would be obtained by those countries in the sample which export any of the five commodities (after allowing for the effects of price-raising on the volume of exports) but also for the direct and indirect effects of the price-raising on the import costs of all the 87 countries and territories.[21] The estimates are as follows:

**Simulated changes in aggregate exports, imports and trade balance of 87 developing countries and territories as a result of direct indexation of five commodities**

| | *Exports* | *Imports* | *Trade balance* |
|---|---|---|---|
| | *(Millions in current dollars)* | | |
| 1969 | + 20 | + 56 | − 36 |
| 1970 | +154 | + 22 | +132 |
| 1971 | +918 | +249 | +669 |
| 1972 | +1278 | +364 | +914 |
| 1973 | +507 | +262 | +245 |
| 1974 | +431 | +397 | + 34 |
| Total, 1969-1974 | +3 308 | +1 350 | +1 958 |

38. As a proportion of the actual value of exports of the five "indexed" commodities from the 87 countries and territories in the sample in the period 1969-1974, the hypothetical aggregate gain of $3.3 billion in export earnings yielded by the simulation exercise was about 10 per cent. This gain was partly offset, however, by a hypothetical increase of $1.4 billion in the total import "bill". For the many countries in the sample whose exports of the five indexed commodities were nil or very small, the rise in their import costs would naturally have been felt as an adverse "impact" of the indexation of these commodities. For the sample as a whole, however, there was a net gain of almost $2 billion. The fact that this amount is very small in relation to the aggregate commodity export earnings (excluding petroleum) of the 87 countries and territories in 1969-1974 (little more than 1 per cent) is due partly to the relative modesty of the price objectives for the five commodities adopted for the purpose of the (purely illustrative) simulation exercise, and partly to the fact that these commodities account for only a small proportion of total commodity export earnings of the 87 countries and territories; if a larger number of commodities had been covered by the exercise, the aggregate hypothetical improvement in the trade balance would have been larger and the number of countries experiencing a hypothetical adverse net effect resulting from the indexation would have been smaller.

## C. Indirect indexation

39. In contrast with direct indexation, indirect indexation would not require intervention in the market. Instead, if the price of any primary commodity covered by such an arrangement failed to reach the reference level in any year, financial compensation would be paid to any exporting country participating in the arrangement. Such a scheme would provide also for reverse payments (repayments) when prices rose above the reference level. Under such a scheme, if the market price of a commodity showed the same trend as the reference price, payments and repayments would tend to cancel out over a number of years; if, however, the market price deteriorated relative to the reference price, there would be a net flow of compensation to the participating commodity exporting countries.

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[18] For a description of the model, see TD/B/503/Supp.1/Add.1, annex III, paras. 6-8.

[19] For the countries included in the sample, see TD/B/503/Supp.1, table 8, foot-note *a*.

[20] The reference or target unit value was in fact the actual real unit value in 1969 for all the commodities except iron ore, for which it was the unit value in 1970.

[21] Direct effects are those on the cost of imports of the commodities whose prices have been raised; indirect effects are the effects of increases in the prices of indexed commodities on the costs of imports of manufactures goods in general by the countries in the sample (see TD/B/503/Supp.1/Add.1, annex III, para. 8).

40. A scheme of the type just described could be applied within separate arrangements for selected individual commodities or within a comprehensive scheme covering a wide range of commodities. In either case, eligibility for compensatory payments could be limited to developing countries exporting the commodities concerned, while the necessary financial resources could be provided by developed countries in proportion to their imports of each commodity concerned.[22] If a comprehensive scheme were established, however, financing might be arranged through a central international fund to which developed countries might contribute in any proportions, or on any basis, which might be agreed among them.

41. In the proposals put forward by the Secretary-General of UNCTAD for an integrated programme for commodities, reference is made to the possible need for short-term financial assistance to developing countries exporting particular commodities whose prices tend to decline in real terms.[23] Such assistance might take the form of arrangements for indirect indexation within international agreements embracing various measures for the commodities concerned. In these proposals, however, the possibility of more comprehensive arrangements for indirect indexation is also envisaged.[24]

42. While an arrangement for indirect indexation could be a means of preserving the purchasing power of developing countries' exports of a commodity, it would not stabilize supplies of the commodity, nor would it necessarily stabilize the price actually received by producers or paid by consumers. Hence indirect indexation, either for selected individual commodities or on a comprehensive basis, should be seen as a possible complement to the international stabilization arrangements for individual commodities proposed in the integrated programme and not as an alternative to them.

### 1. *A possible mechanism*

43. The mechanism by which such indirect indexation could be implemented might be as follows. For the commodity concerned, a base export price and an import price index could be established by agreement among the participating countries. If, in any given year, the price obtained by a country for its exports of the commodity (to other participating countries, or to all destinations, as agreed) fell below that year's reference price (defined as the base price adjusted for the change in the agreed import price index), then compensation would be paid to the country in the amount of the difference between the reference price and the realized export price, multiplied by the quantity of the commodity actually exported by the country in the year concerned.

[22] It would probably be necessary to distribute the financial burden in proportion to the total imports of each developed country of each commodity concerned, in order to avoid diversion of imports from developing to developed sources.

[23] See document TD/184 above, para. 35.

[24] *Ibid.*

44. Such payments would be made to Governments, which could pass them on to producers if they wished. In order to avoid encouragement of excessive production, however, it would be necessary to impose an upper limit on the quantity of exports in respect of which compensatory payments could be claimed by any country. This would require the establishment, subject to periodic revision, of maximum eligible quantities of exports for each country benefiting from the scheme. As a further safeguard against excessive production or misallocation of resources, Governments might also be required to ensure that any compensation passed on to producers be linked with measures for diversification or with production ceilings.

45. Repayments would be triggered by the rise of the actual export price above the (indexed) reference price and would, as for payments, be equal to the difference between these two prices, multiplied by the corresponding export quantity. However, in order to ensure that such repayments did not become a severe burden on a country in the light of its over-all situation, the amount of the repayment in respect of a given commodity in any year could be limited to a defined proportion of its export earnings from the commodity in question during that year. Obviously, the required repayment could never be greater than a country's cumulative receipts under the scheme, regardless of the proportion such a repayment represented of the year's export earnings for the commodity concerned.

46. If the objective of an indirect indexation scheme for any commodity was to offset fluctuations in the price, in real terms, aroung its market equilibrium trend, then, as noted earlier, payments and repayments would tend to cancel out over a period of years and there would be little or no net transfer of resources to participating exporting countries. The chief advantage to participating exporting countries of a scheme with this "pure" stabilization objective would lie in the greater short-run stability it would impart to the effective real export price of the commodity concerned. An element of resource transfer might, however, be introduced into a scheme with this objective by making all payments interest-free and by relaxing, or waiving entirely, repayment requirements for the poorest participating countries.

47. An indirect indexation scheme with the above objective, however, could not adequately protect the purchasing power of exporters of a commodity whose real price was showing a declining trend. For such a purpose, it would be necessary to set the real reference price at a level which would ensure that, over a period of time, its trend would be higher than the trend of the real market price.[25]

[25] It might be argued that the purchasing power of developing countries could be protected through a network of indirect indexation schemes with a pure stabilization objective, if repayment requirements were relaxed or waived completely for all developing participating countries. However, the aggregate resource transfers to which such arrangements would give rise would not only be insufficient to solve the purchasing power problem of developing countries; they would also be distributed in such a manner as to defeat that purpose, since the biggest transfers would go to the countries exporting the commodities whose prices were the most unstable, rather than to the countries exporting the commodities showing the most unfavourable trends in price.

### 2. *Financial and institutional arrangements*

48. The extent to which indirect indexation would preserve or improve the purchasing power of exports of any commodity would, of course, depend not only on the difference between the reference price and the market price but also on the availability of resources for the scheme. One crucial issue would be whether Governments wished to place a global limit on net transfers (as is done in the case of the Stabex scheme applied under the Lomé Convention.)[26] If such a limit were imposed, it could be applied in a number of ways – for example, by placing ceilings on net transfers to individual countries (i.e. compensating for less than the full extent of shortfalls), or by making some minimum proportion of the compensation received by each country ultimately repayable, irrespective of whether repayments triggered by price movements reach the required total or not.

49. Another important issue would be the method of financing the scheme. If compensation payments did not come from a central fund endowed with adequate resources, but instead depended on the willingness of individual Governments to make the necessary fiscal or budgetary provisions, there would be a lack of automaticity in the arrangements. This, in turn, would lead to a reduction in the certainty with which countries could expect to obtain the payments necessary to preserve the purchasing power of their exports of the commodities concerned, with the possible result that development programmes, and particularly programmes of adjustment aimed at the particular commodity sectors for which the compensatory payments were made, could be seriously interrupted.

50. Moreover, even if the availability of resources for indirect indexation arrangements was adequate and automatic, there would be a danger that flows of net compensatory payments might not be additional to existing flows of aid. If the countries providing these payments deducted them *in toto* from their aid allocations, total net transfers of resources to developing countries would remain unchanged.

51. However, the above conclusions do not derive from the nature of indirect indexation arrangements but rather depend on the way in which the arrangements are financed and on the manner in which countries which are potential providers of bilateral or multilateral development assistance might view their contributions to such financing. If financing was arranged through a central fund, such as IMF or a separate and especially-created institution (as has been proposed by the Government of Sweden in connexion with the compensatory financing of export fluctuations[27]), then at least the problems concerning the adequacy and automaticity of compensation payments might be solved.

[26] See foot-note 10 above.

[27] Proposal submitted at the seventh special session of the General Assembly in September 1975 (see A/AC.176/4).

## CHAPTER III

## *An earnings support system analogous to the Stabex scheme*

52. As indicated in chapter I above, another possible approach to the problem of preserving the purchasing power of developing countries' exports would be through the establishment of arrangements to compensate individual developing countries for shortfalls in the real value of their exports of particular commodities from target levels. The difference between this approach and indirect indexation lies in the fact that with such an approach compensation would be paid for shortfalls in earnings and not, as in the case of indexation, for shortfalls in prices. The type of scheme suggested could therefore be a means of preventing the total receipts obtained by a country from its exports of a given commodity from falling below a pre-determined minimum level, whereas indirect indexation could not guarantee any particular level of receipts, since it takes no account of variations in the quantity of exports.

53. Since the Stabex scheme applied under the Lomé Convention[28] is a scheme for the compensation of shortfalls in the earnings of individual countries from the export of particular commodities, the question arises how far it might be taken as a model for a world-wide earnings support system of the type described above. Before attempting to answer this question, it is necessary to give a brief summary of the main characteristics of the Stabex arrangements.

### A. Main features of the Stabex scheme

54. The Stabex scheme is a mechanism designed to reduce fluctuations in the earnings of each of the 46 African, Caribbean and Pacific (ACP) States parties to the Lomé Convention from their exports to the European Economic Community of a group of 12 selected commodities and 17 of the semi-processed forms of those commodities.[29] The workings of the scheme may be briefly summarized as follows: for each of the 46 ACP countries and each eligible product, a reference level of earnings from exports to the Community is calculated for each year as the average of these earnings, in nominal terms, in the preceding four years; ACP countries are entitled to apply for financial compensation under the scheme, provided that actual earnings from exports to the Community of an eligible product for a given calendar year fall at least 7.5 per cent below the reference level (2.5 per cent for the least developed, land-locked and island countries;[30] the amount of the compensation is the full difference between actual earnings and the reference level; the compensation is repayable under certain conditions, but does not bear any interest. The total funds allocated by the Community to

[28] See foot-note 10 above.

[29] See annex II below for the countries and commodities covered by the scheme.

[30] *Ibid.*

the Stabex scheme are 375 millions units of account (u.a.), divided into equal instalments of 75 million u.a. for each of five years.

55. The Stabex system is thus a regional arrangement with a limited coverage as regards both beneficiary countries and eligible products. Its purpose, moreover, is not to maintain earnings at target minimum levels in real terms but merely to offset short-term fluctuations in nominal earnings around their trend. The provisions of the Stabex scheme are nevertheless analogous to those which, *mutatis mutandis*, a comprehensive international system for supporting the real incomes of individual developing countries from their exports of particular commodities would have to contain. In the following paragraphs, therefore, the necessary provisions of such a global system are considered in relation to the corresponding Stabex provisions.

## B. Necessary provisions of a global scheme

### 1. *Country coverage*

56. As noted above, the Stabex scheme has a limited country coverage (the 46 ACP States). A comprehensive international earnings support scheme would obviously have to cover all developing countries, or at least all those with *per capita* incomes below a given level.

### 2. *Product coverage*

57. In a global scheme moreover, the list of eligible commodities and semi-processed products would have to be much broader than the Stabex list, in order to cover the export interests of all developing countries. The importance of this point is indicated in table 5 below, in which the main exports of some major commodity-exporting developing countries are listed. Of the 17 commodities listed in that table, only six are covered by Stabex (cotton, coffee, iron ore, palm oil, lumber, and tea), while the remaining 11 (maize, beef, wheat, copper, rubber, tin, tobacco, zinc, lead, fruit and sugar[31]) are not covered.

### 3. *"Dependence" and "trigger" thresholds*

58. In order to avoid the administrative costs of small-scale transfers, the Stabex scheme includes the concept of thresholds, which must be passed before an application by an ACP country for transfers under the scheme can be considered. Two such thresholds are incorporated: the "dependence" and the "trigger" thresholds. The "dependence" threshold defines the conditions under which a country's exports of a given product on the eligible list may qualify for the "trigger" threshold test. Thus, the "trigger" test may be applied only if, during the year preceding the shortfall year, a country's earnings from exports of the given product to all destinations (not just the countries of the Community) are at least equal to 7.5 per cent of that country's total earnings from merchandise exports to all destinations.[32]

59. If the "dependence" threshold is met, a country's exports to the Community of an eligible product qualify for assistance under the Stabex scheme if the average value (f.o.b.) of these exports is at least 7.5 per cent below the

[31] Although sugar is not included in the Stabex arrangements, the Lomé Convention nevertheless provides for the purchase by the European Economic Community at guaranteed prices of specific quantities of cane sugar from ACP countries which undertake to deliver these quantities to the Community.

[32] In the case of sisal, this dependence threshold is 5 per cent; for 34 least developed, land-locked and island States (listed in section B of annex II below), it is 2.5 per cent for all products.

TABLE 5

Some major developing country exporters of primary commodities (excluding petroleum) and their principal exports

| | | *The three most important commodities exported* | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | | *First* | | *Second* | | *Third* | | |
| *Country* | *Share in world commodity exports* | *Commodity* | *Share in country's total exports* | *Commodity* | *Share in country's total exports* | *Commodity* | *Share in country's total exports* | *Share of the three commodities in the country's total exports* |
| | *(Per cent)* | | *(Per cent)* | | *(Per cent)* | | *(Per cent)* | *(Per cent)* |
| Brazil | 2.2 | Coffee | 36 | Iron ore | 8 | Cotton | 6 | 49 |
| Argentina | 1.4 | Maize | 15 | Beef | 14 | Wheat | 7 | 36 |
| West Malaysia | 1.2 | Rubber | 39 | Tin | 23 | Palm oil | 6 | 68 |
| Chile | 1.1 | Copper | 77 | Iron ore | 6 | Copper ore | 2 | 85 |
| Cuba | 1.0 | Sugar | 77 | Tobacco | 1 | — | — | 79 |
| Zambia | 0.9 | Copper | 95 | Zinc | 2 | Lead | 1 | 97 |
| Philippines | 0.9 | Lumber | 22 | Sugar | 19 | Copper ore | 18 | 59 |
| India | 0.9 | Tea | 10 | Iron ore | 8 | Fruit | 4 | 21 |
| Mexico | 0.8 | Sugar | 9 | Cotton | 7 | Coffee | 6 | 22 |

*Source:* "The significance of basic commodities in world trade in 1970: note by the Secretary-General" (A/9544/Add.1 and Corr.1 and 2), tables 1 and 4. The data refer to 1970.

corresponding reference level (2.5 per cent for the least developed, land-locked and island countries). Once this "trigger" threshold is exceeded, a transfer equal to 100 per cent of the shortfall is made.

60. The application of such a "trigger" threshold within a global earnings support scheme would not be consistent with the objective of such a scheme, since it would deny compensation for all shortfalls in earnings of less than 7.5 per cent. Use of a "dependence" threshold would also be inconsistent with the objective of income support because, for example, a country which had only recently begun to export an eligible product experiencing an unfavourable price trend might have to wait several years before its exports of the product qualified under the "dependence" threshold. Furthermore, if the circumstances underlying a shortfall in the value of a country's exports of a given eligible product ultimately caused that value to fall below the "dependence" threshold, support would be cut off. Such anomalies could be avoided under a global earnings support scheme if the administrative problem of small-scale transfers were dealt with by the establishment of a single value threshold (e.g. $100,000) for claims below which no application for compensation would be accepted.

### 4. *Reference levels of export earnings*

61. If the reference level of earnings for any country and any product under a global earnings support scheme is defined as a moving average of actual (nominal) earnings for a given number of years preceding the shortfall year, as under the Stabex system or as a moving average of past and forecast earnings, then the reference level will necessarily follow the trend of actual earnings and will not constitute a normative or minimum level in real terms. A reference level defined in this way would not, therefore, be appropriate in a scheme designed to preserve the purchasing power of developing countries in the longer or medium term, especially in conditions of inflation.[33] For such a scheme, it would be necessary not only to define the reference level in real terms but also to set it at a normative or "target" level which, though it would be subject to adjustment at intervals of not less than a minimum number of years, was designed to ensure, through a combination of actual export receipts and compensation payments for shortfalls in them, a satisfactory trend in the total real income derived by the country from its exports of the commodity. Such arrangements would be no different in principle from the arrangements for supporting farm incomes in most developed market-economy countries.

### 5. *Repayment provisions*

62. Provided reference earnings were defined in real terms and established at normative levels, it would be reasonable to include in a global earnings support scheme a provision similar to that included in the Stabex scheme whereby beneficiary countries are required to refund compensatory payments received by them out of any excesses of export earnings above the reference level. Under the Stabex scheme, if a compensatory payment has not been repaid after five years, the Community has the right to decide that the sums outstanding are to be repaid wholly or partially, in one or more instalments, or that further repayments are to be waived.[34] In a scheme aiming at income support, however, all outstanding amounts, after an appropriate period, would have to be converted into outright grants or, at least, into long-term loans.[35]

### 6. *Commitment of resources*

63. From the preceding paragraphs, it is clear that a global commodity-based earnings support scheme would require the commitment of a relatively greater volume of resources than that committed for Stabex, which has the more limited aim of the stabilization of earnings in nominal terms. It would be necessary, moreover, to ensure that the resources allocated to the scheme were specified in real, and not in nominal, terms. This is because, in conditions of inflation, the real value of each unit of account allocated to the scheme would diminish over the years during which the scheme was operating. For example, at the current rate of inflation in the industrialized countries (12.5 per cent per annum), the real value of a unit of account committed to an earnings support scheme would be nearly 40 per cent less in the fifth year of such a scheme than in the first year.

### 7. *Summary*

64. In the light of the above analysis, it is possible to summarize the essential characteristics which a global earnings support system analogous to the Stabex scheme would have to possess if it were to be an adequate instrument for the preservation of the export purchasing

[33] It may be noted also that, in conditions of inflation, a moving average or nominal export earnings is unsuitable as a reference level, even for the more limited purpose of the short-run stabilization of real export earnings, since a reference level defined in this way takes no account of the decline in the purchasing power of money. Thus, for example, if the import prices of a country were rising at a rate of 10 per cent per year, then the purchasing power of a dollar in any shortfall year would be 9 per cent less than that of a dollar earned in the previous year and 17, 25 and 32 per cent less, respectively, than that of dollars earned in the three preceding years. Hence, under inflation, a moving average of nominal export earnings in the four years preceding the shortfall year would always represent a lower level of real earnings, at the import prices of the shortfall year, than those actually obtained, on average, in the four years concerned. As long as import prices were rising, therefore, compensation payments calculated from such a reference level would never cover the full extent of the drop in the purchasing power of earnings represented in any year by the shortfall in nominal earnings from the reference level.

[34] The 24 least-developed ACP countries listed in section B of annex II below are, however, not required to make repayments at any time.

[35] Loans granted for short periods, such as five years, are of only limited value to developing countries, since the payback periods of investments made by these countries are generally much longer than five years.

power of the developing countries. These characteristics are the following:

(*a*) The list of beneficiary countries would have to include all or most developing countries;

(*b*) The participating importing countries, i.e. those responsible for providing the resources required, would have to include most of the principal commodity importing developed market-economy countries and, if possible, developed socialist countries and countries members of OPEC;

(*c*) The list of commodities covered would have to be wider than the present Stabex list and would have to include, in particular, "weak" commodities, such as tea, bananas, oranges, wine, jute, cotton, iron ore and manganese ore;

(*d*) Adequate financial resources for outright transfers or for long-term low interest loans, specified in real terms, would have to be committed to the scheme;

(*e*) Repayments should be required only out of excesses of earnings above the reference level;

(*f*) The reference level of earnings should take the form of a target or norm in real terms (representing a target unit value multiplied by a reference export quantity) to be subject to periodic revision in the light of changing market conditions but remaining in force for a period of not less than five years (the time-span of most development plans);

(*g*) Net transfers or long-term loans under the scheme could be made conditional on the application of the resources provided to such purposes as productivity improvement or diversification.

65. With regard to possible financial and administrative arrangements, it seems likely that such a system would have to be established as a separate institutional entity, although it might be administered by existing financial institutions. Resources might be contributed by participating importing countries in proportion to their aggregate commercial imports of each commodity from the beneficiary countries. Alternatively, "donor" countries might agree on some other basis for determining contributions, which took account of differences in their economic situations.

## CHAPTER IV

## *Supplementary financing*

### A. Objectives

66. A fourth option open to the international community for maintaining the purchasing power of the exports of developing countries is what has come to be known as "supplementary financing". At its first session (Geneva, 1964), the Conference adopted the recommendation in annex A.IV.18 of the Final Act, in which it invited the World Bank to study the feasibility of a scheme which would aim to:

> deal with problems arising from adverse movements in export proceeds which prove to be of a nature or duration which cannot adequately be dealt with by short-term balance-of-payments support. Its purpose should be to provide longer-term assistance to developing countries which would help them to avoid disruption of their development programmes.

67. The recommendation defined "an adverse movement for the purposes of the scheme" as being "a shortfall from reasonable expectations... of the level of export proceeds (including, in appropriate cases, invisible exports)". In its response to the recommendation, the World Bank considered this concept of "reasonable expectations" and concluded that:

> there is an important difference between the concept of reasonable expectations suitable for a short-term compensatory finance scheme (such as the IMF compensatory financing facility) and the assumption regarding export prospects, which is an integral part of a development plan. The export expectations of a planning authority take account not only of existing objective factors, whether domestic or international, relevant to future prospects, but also analyse the impact of new policy measures designed to modify the effect of these objective factors.[36]

68. The Bank therefore suggested that an appropriate concept of "reasonable expectations of the level of export proceeds" for the purposes of a supplementary financing scheme would be a forecast of export earnings for about five years ahead, agreed between the agency administering the scheme and the planning authority of each developing country concerned. The "reference" levels from which shortfalls in actual earnings would be measured under such a scheme would differ from those used in connexion with the IMF compensatory financing facility, inasmuch as the latter levels, representing trend values, reflect the actual course of export earnings, including unexpected adverse movements in them, whereas the former would be the levels planned and expected under reasonably optimistic assumptions. A scheme for compensating developing countries for shortfalls in aggregate export earnings from such reference levels could therefore be a means of preserving the purchasing power of these earnings, on the assumption that "expected" exports would be the levels realistically planned to provide for an adequate growth in earnings in real terms.

69. Under the scheme proposed by the World Bank, all compensatory payments (available to developing countries only) would take the form of contingent loans. During an initial period, these would be repayable out of any excess of realized exports over the "reasonable expectations" level, but this liability would lapse at the end of the period over which exports were projected (usually five years). Any balance still outstanding at the end of this time would then be converted into a long-term loan, with an interest rate and maturity to be determined according to the financial and economic position of the country.

70. Taking into consideration the normative character of the reference level from which shortfalls in export earnings would be calculated, these provisions would make the scheme an effective instrument for preserving the export purchasing power of developing countries. In an up-dated version of such a scheme, however, account would have to be taken of the acceleration of world inflation,

[36] IBRD, *Supplementary financial measures – A study requested by the United Nations Conference on Trade and Development, 1964* (Washington, D.C., December 1965), pp. 29 and 30.

since the World Bank proposal was first put forward in 1965. Because of the more rapid inflation now prevailing, the forecasts of export earnings used as reference levels would have to be made explicitly in real terms (i.e. in money units of specified purchasing power) and would have to be re-expressed in terms of current money units before comparison with actual earnings for the purpose of determining whether there had been a shortfall or a surplus.[37]

### B. Resources required

71. For its original report on the supplementary financing proposal, the World Bank carried out a simulation analysis of shortfalls in the export earnings of a sample group of developing countries, in order to assess the possible financial implications of a general scheme.[38] Shortfalls for the period 1957-1963 were simulated by comparing the actual earnings of the sample countries in these years with the corresponding forecasts of these earnings that had been made by the Bank.

72. On the basis of the results, the Bank considered that:

> ... the quantitative evidence suggests that a global supplementary financing scheme might have to have external resources sufficient to cover annual aggregate shortfalls from medium-run expectations amounting to around $1 billion to $2 billion per year (or, using the mid-point of this range, $7.5 billion for a five-year period)...[39]

The study went on to analyse the appropriateness of these estimates as an indication of the resource needs of a future scheme and concluded that:

> ... the quality of projections should improve as the result of experience gained in the past... At the same time, the post-war trend has been toward a dampening of the amplitude of export fluctuations... On the other hand, the export earnings of developing countries are likely to continue to grow, although at a moderate pace... The global estimates, therefore, might not be very wide of the mark in terms of a scheme that might be operating during the next few years.[40]

73. On the basis of a few simple assumptions, it is possible to check these estimates roughly in the light of the subsequent export experience of developing countries. In its original study, the Bank reported that, in a test of its export projections for 19 countries over various five-year periods, nearly four-fifths of the projections had been found to be within 15 per cent of the actual export values. The projections represented over-estimates of the actual values in half the cases and under-estimates in the other half.[41] As mentioned above, moreover, the Bank expected that the quality of its projections would improve.

74. This suggests that a crude revision of the estimated order of magnitude of the financial resources required for a scheme of the type envisaged by the Bank might be based on the following assumptions:

(*a*) That the average degree of accuracy of the forecasts of export earnings (in real terms) for individual developing countries was 10 per cent;

(*b*) That the forecasts were evenly distributed between over-estimates and under-estimates, so that, in any year, half the total nominal export earnings of the developing countries covered by the scheme would be over-estimated by 10 per cent on average.

On this basis, compensatory loans under a supplementary financing scheme would amount to 5 per cent of the aggregate nominal export earnings of the countries covered each year. If all developing countries, other than countries members of OPEC, were assumed to be covered, this would yield hypothetical totals of loans in the 20-year period 1955-1974 as follows:

| *5-year period* | *Total* (*Billions of current dollars*) | *Annual average* |
|---|---|---|
| 1955-1959 | 5.2 | 1.0 |
| 1960-1964 | 6.1 | 1.2 |
| 1965-1969 | 8.5 | 1.7 |
| 1970-1974 | 14.8 | 3.0 |

75. These estimates may be compared with the Bank's estimate of resource needs for a supplementary financing scheme, referred to above. The latter estimate, however, related to a scheme covering all developing countries (i.e. including countries members of OPEC). In 1965, when the Bank estimates were made, exports from the countries now members of OPEC accounted for 18 per cent of the total export of developing countries. If the Bank estimates of $1-2 billion for the anual resource requirements for a supplementary scheme are reduced in that proportion, they become $0.8-1.6 billion, which accords reasonably closely with the crude estimates presented above for the period 1955-1969.

76. Over the whole 20-year period 1955-1974, however, these crude estimates rise in line with the increasing nominal value of developing countries' exports, reflecting the growing volume of these exports, as well as world inflation, the marked acceleration of which since 1970 explains the sharpness of the increase in the estimates for 1970-1974. Because of this accelerated inflation, it is not the annual average of $3 billion for the period 1970-1974 which is most relevant as an indicator of the possible annual amount of loans which would currently be required under a supplementary financing scheme, but rather the figure for 1974, which (at 5 per cent of the exports of the non-OPEC developing countries) is $4.9 billion.

77. An alternative estimate of what current resource requirements for a supplementary financing scheme covering the non-OPEC developing countries might be can be obtained by increasing the range $0.8-1.6 billion, representing the implicit estimate for such a scheme made by the Bank in 1965, in proportion to the rise in the value of the exports of the non-OPEC developing countries between

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[37] The effect of this procedure would be to ensure that, if the rate of inflation was higher than that which had been assumed in making the forecasts, countries would be compensated for such an unexpected adverse development to the extent that it prevented the real value of their export earnings from reaching the reference (forecast) level.

[38] IBRD, *op. cit.*, annex IV.

[39] *Ibid.*, p. 120.

[40] *Ibid.*, pp. 124 and 125.

[41] *Ibid.*, p. 32.

that year and 1974 (228 per cent). This yields a range of $2.7-5.4 billion.

78. For the years immediately ahead, therefore, a figure of aroung $5 billion would seem to be the most appropriate estimate of the resources which might be required each year for making compensatory long-term loans under a supplementary financing scheme covering all developing countries other than those which are members of OPEC. This figure is, of course, a very rough one and may well be an under-estimate. Even a substantially higher figure, however, would not be large in relation to the size of the aggregate current balance-of-payments deficits recently recorded by the non-OPEC developing countries (around $33 billion in 1974 and $45 billion in 1975).[42]

## CHAPTER V

## *Conclusions*

79. Two main questions arise from a consideration of the four policy options described in the preceding chapters. The first is how far the options are alternatives and how far they are potentially complementary. On this point, it is clear that schemes for indirect indexation and for the support of export incomes would be mutually exclusive for a particular commodity, since their purposes overlap to a considerable extent.

80. However, either type of scheme could be complementary to an arrangement for the stabilization of the price of a given commodity at a remunerative level, whether that arrangement provided for direct indexation or not, since, in combination with such an arrangement, compensation payments under either of the other two schemes would be residual, i.e. they would be required only to the extent that the objectives of the scheme were not achieved through the stabilization arrangement.

81. Moreover, it is evident that the existence of arrangements for direct or indirect indexation, or for the support of export incomes, with respect to any number of commodities, would in no way weaken the logical case for establishing a system of supplementary financing. This is because the purpose of supplementary financing would be to insure developing countries against unexpected shortfalls in their aggregate real export earnings from the forecast levels of these earnings in the medium term, whereas the purpose of the other arrangements would be to improve the effective trend of real earnings from the export of individual commodities. Even if any of these other arrangements were in operation for a wide range of commodities, the need to insure developing countries against unforeseeable adverse movements in their total export earnings would still remain. The two approaches would be complementary, however, since the operation of measures to maintain the effective prices or values of exports of particular commodities at target levels in the medium term would improve the predictability of the aggregate export receipts of individual countries and would therefore tend to reduce the amount of compensatory payments required under a supplementary financing scheme.[43] On the other hand, if none of these other measures were in operation, there would be all the more need for a scheme of supplementary financing as an alternative means of protecting the purchasing power of developing countries.

82. The second main question which arises from a consideration of the four options is that of their relationship to the proposals of the Secretary-General of UNCTAD for an integrated programme for commodities.[44] These proposals are for the establishment of international arrangements for a wide range of commodities of export interest to developing countries. To the extent that such arrangements are established within the programme, therefore, potential mechanisms will be created for the implementation of direct indexation wherever this is feasible and appropriate. The proposals already make provision for incorporating in commodity arrangements established within the integrated programme periodic reviews and adjustments of the initial price ranges agreed upon, in order to take account of the effects of world inflation on the import prices paid by developing countries;[45] such provisions would constitute an application of the concept of direct indexation.

83. The thre other options discussed in the present report, i.e. indirect indexation, a global earnings support scheme analogous to the Stabex scheme and a supplementary financing arrangement, fall outside the scope of the proposed integrated programme, but any of them would be complementary to the programme.[46] None of these schemes, however, could be a substitute for the wide network of individual commodity stabilization arrangements envisaged in the integrated programme, since they are all purely financial arrangements and could not achieve the stabilization of market prices and supplies which is urgently required for many commodities in the interests of both producers and consumers. The Conference may wish to consider the role which these "financial" options might play in reinforcing the arrangements envisaged within the proposed integrated programme for the purpose of preserving the purchasing power of the exports of developing countries.

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[42] See document TD/188/Supp.1 below, table 6.

[43] This naturally assumes that compensatory payments and repayments under indirect indexation or Stabex-type schemes would be included in calculations of aggregate export earnings under a supplementary financing scheme.

[44] These proposals are set out in another document before the Conference (TD/184), reproduced above.

[45] *Ibid.*, para. 38.

[46] The programme as proposed already contains the suggestion that provision might be made within commodity arrangements for short-term financial assistance to developing countries exporting commodities experiencing deteriorating price trends in real terms (*ibid.*, para. 35).

# ANNEXES

## ANNEX I

### Progress report on the construction of a new import price index for developing countries

1. In its earlier studies on indexation, the UNCTAD secretariat referred to the need for an improved measure of changes in the prices of manufactured goods imported by developing countries, in order to provide not only a basis for possible indexation schemes but also a better indication of changes in the terms of trade of developing countries. It pointed out that any such new statistical series would need to be based as far as possible on actual price data, in order to avoid the problem of "unit value bias" inherent in the existing United Nations indices of the unit values of manufactured goods in world trade.[a] It outlined a new import price index for developing countries which it proposed to develop in collaboration with the Statistical Office of the United Nations.[b]

2. The secretariat has since discussed the technical features and the specific data requirements of the proposed new index with the Statistical Office, which has accepted that the project is feasible and agreed to undertake collection of the basic price data. As a first step, the Statistical Office has requested all potential respondents to co-operate in the project and to provide detailed specifications of the price data which they would be able to furnish on a regular basis. The next stage will be to undertake a pilot survey, in order to test the questionnaires and the computing and other procedures. The eventual organization of work the respective responsibilities of the Statistical Office and the UNCTAD secretariat, and the details of the reporting schedule will be decided at a later stage. The first results are expected to be published early in 1977.

## ANNEX II

### Data relating to the Stabex scheme

### A. *List of the 46 ACP States*

| | *1972 population (thousands)* | *1972 per capita income in dollars* |
|---|---|---|
| *West Africa* | | |
| Benin | 2 860 | 110 |
| Gambia | 377 | 140 |
| Ghana | 9 086 | 300 |
| Guinea | 5 100 | 90 |
| Guinea-Bissau | 568 | 230 |
| Ivory Coast | 5 400 | 340 |
| Liberia | 1 617 | 250 |
| Mali | 5 260 | 80 |
| Mauritania | 1 210 | 180 |
| Niger | 4 250 | 90 |
| Nigeria | 69 524 | 130 |
| Senegal | 3 990 | 260 |
| Sierra Leone | 2 727 | 190 |
| Togo | 2 052 | 160 |
| Upper Volta | 5 613 | 70 |
| Total, 15 countries | 119 364 | |
| *Central Africa* | | |
| Burundi | 3 506 | 70 |
| Central African Republic | 1 673 | 160 |
| Chad | 3 780 | 80 |
| Congo | 1 151 | 300 |
| Equatorial Guinea | 301 | 240 |
| Gabon | 494 | 880 |
| Rwanda | 3 904 | 60 |
| United Republic of Cameroon | 6 084 | 200 |
| Zaire | 19 091 | 100 |
| Total, 9 countries | 39 984 | |
| *East Africa* | | |
| Botswana | 629 | 240 |
| Ethiopia | 25 930 | 80 |
| Kenya | 12 070 | 170 |
| Lesotho | 959 | 90 |
| Madagascar | 7 400 | 140 |
| Malawi | 4 711 | 100 |
| Mauritius | 849 | 300 |
| Somalia | 2 964 | 80 |
| Sudan | 16 586 | 120 |
| Swaziland | 446 | 260 |
| Uganda | 10 479 | 150 |
| United Republic of Tanzania | 13 606 | 120 |
| Zambia | 4 515 | 380 |
| Total, 13 countries | 101 144 | |
| *The Caribbean* | | |
| Bahamas | 177 | 2 240 |
| Barbados | 239 | 800 |
| Grenada | 95 | 420 |
| Guyana | 754 | 400 |
| Jamaica | 1 931 | 810 |
| Trinidad and Tobago | 1 048 | 970 |
| Total, 6 countries | 4 238 | |
| *The Pacific* | | |
| Fiji | 541 | 500 |
| Tonga | 93 | 320 |
| Western Samoa | 150 | 150 |
| Total, 3 countries | 784 | |

Total 1972 population of the 46 States: 265 514 000

*Source: 1974 World Bank Atlas.*

### B. *The least developed, land-locked and island States referred to in articles 17 and 19 of the Lomé Convention*

Bahamas
Barbados
Benin
Botswana
Burundi
Central African Republic
Chad
Equatorial Guinea
Ethiopia
Fiji
Gambia
Grenada

[a] TD/B/C.1/168, paras. 11 and 12.

[b] *Ibid.*, section II.

| | |
|---|---|
| Guinea | Somalia |
| Guinea-Bissau | Sudan |
| Jamaica | Swaziland |
| Lesotho | Togo |
| Madagascar | Tonga |
| Malawi | Trinidad and Tobago |
| Mali | Uganda |
| Mauritania | United Republic of Tanzania |
| Mauritius | Upper Volta |
| Niger | Western Samoa |
| Rwanda | Zambia |

### C. *The 24 ACP countries which are not required to make repayments on loans made to them under the Stabex scheme*

| | |
|---|---|
| Benin | Mauritania |
| Botswana | Niger |
| Burundi | Rwanda |
| Central African Republic | Somalia |
| Chad | Sudan |
| Ethiopia | Swaziland |
| Gambia | Togo |
| Guinea | Tonga |
| Guinea-Bissau | Uganda |
| Lesotho | United Republic of Tanzania |
| Malawi | Upper Volta |
| Mali | Western Samoa |

### D. *The primary commodities and semi-processed products covered by the Stabex scheme*

| | |
|---|---|
| 1. Groundnut products: | groundnuts, shelled or not<br>groundnut oil<br>groundnut oilcake |
| 2. Cocoa products: | cocoa beans<br>cocoa paste<br>cocoa buter |
| 3. Coffee products: | raw or roasted coffee<br>extracts, essences<br>or concentrates of coffee |
| 4. Cotton products: | cotton, not carded or combed<br>cotton linters |
| 5. Coconut products: | coconuts<br>copra<br>coconut oil<br>coconut oilcake |
| 6. Palm, palm nut and kernel products: | palm oil<br>palm nuts and kernels<br>palm nut and kernel oil<br>palm nut and kernel oilcake |
| 7. Raw hides, skins and leather: | raw hides and skins<br>bovine cattle leather<br>sheep and lamb skin leather<br>goat and kid skin leather |
| 8. Wood products: | wood in the rough<br>wood roughly squared<br>or half-squared<br>(but not further manufactured)<br>wood sawn lengthwise<br>(but not further prepared) |
| 9. Fresh bananas | |
| 10. Tea | |
| 11. Raw sisal | |
| 12. Iron ore: | Iron ores and concentrates<br>and roasted iron pyrites. |

### E. *Proportion of products covered by the Stabex scheme in total exports of selected ACP States (percentages)*

| | |
|---|---|
| Benin | Palm products (34) |
| Botswana | Leather and hides (9) |
| Burundi | Coffee (86), cotton (3), leather and hides (6) |
| Central African Republic | Coffee (23), timber (21), cotton (18) |
| Chad | Cotton (69) |
| Congo | Timber (42) |
| Ethiopia | Coffee (38), leather and hides (13) |
| Fiji | Coconut oil (5) |
| Gabon | Timber (32) |
| Gambia | Groundnuts, including oil and cattle-cake (94) |
| Ghana | Cocoa (61), timber (19) |
| Ivory Coast | Cocoa (15), coffee (23), timber (29) |
| Jamaica | Bananas (4) |
| Kenya | Coffee (22), tea (11) |
| Liberia | Iron ore (71) |
| Madagascar | Coffee (30), sisal (3) |
| Malawi | Tea (17), groundnuts (7) |
| Mali | Cotton (39), groundnuts (7) |
| Mauritania | Iron ore (73) |
| Niger | Groundnuts (15), groundnut oil (9) |
| Rwanda | Coffee (61), raw hides (4) |
| Senegal | Groundnuts and groundnut oil (35) |
| Sierra Leone | Iron ore (10), palm kernel oil (5) |
| Somalia | Bananas (26), copra (45) |
| Sudan | Cotton (56), groundnuts (9) |
| Swaziland | Cotton (3) |
| Togo | Cocoa beans (26), coffee (13) |
| Tonga | Copra (50) |
| Uganda | Coffee (66), cotton (15), tea (5) |
| United Republic of Cameroon | Cocoa (23), coffee (26), timber (12) |
| United Republic of Tanzania | Coffee (19), cotton (13), sisal (9) |
| Upper Volta | Groundnuts and groundnut oil (8), cotton (22) |
| Western Samoa | Cocoa (28) |

*Source:* Commission of the European Communities, *The Courrier* No. 31 (special issue), (Brussels, March 1975), p. 28.

F. *Proportion of important export products not covered by the Stabex scheme in total exports of selected ACP countries (percentages)*

| *Country* | *Product* |
|---|---|
| Central African Republic. . . . . | Diamonds (44) |
| Congo . . . . . . . . . . . . . . . | Diamonds (14.8) |
| Gabon . . . . . . . . . . . . . . . | Wood (36.8) |
| Guyana. . . . . . . . . . . . . . . | Bauxite (47.9) |
| Jamaica. . . . . . . . . . . . . . . | Bauxite (22.7)<br>Aluminium (34.2) |
| Malawi . . . . . . . . . . . . . . . | Tobacco (34.6) |
| Mali. . . . . . . . . . . . . . . . . | Live cattle (48.2)<br>Fish (14.1) |
| Niger . . . . . . . . . . . . . . . . | Live cattle (14.3) |
| Nigeria . . . . . . . . . . . . . . . | Tin (4.4) |
| Rwanda . . . . . . . . . . . . . . | Tin (31.1) |
| Senegal. . . . . . . . . . . . . . . | Cereals (17.4)<br>Phosphates (8.5) |
| Sierra Leone. . . . . . . . . . . . | Diamonds (71) |
| Somalia. . . . . . . . . . . . . . . | Live cattle (50.1) |
| Togo . . . . . . . . . . . . . . . . | Phosphates (29.2) |
| United Republic of Cameroon. . | Aluminium (9.5) |
| United Republic of Tanzania . . | Diamonds (10.7)<br>Vegetables and fruit (9.2) |
| Upper Volta . . . . . . . . . . . . | Live cattle (36.9) |
| Zaire . . . . . . . . . . . . . . . . | Diamonds (5.3) |

*Source:* UNCTAD secretariat estimates, based on trade data for 1969.

# DOCUMENT TD/185*

## A comprehensive strategy for expanding and diversifying the export trade of the developing countries in manufactures and semi-manufactures

### *Report by the UNCTAD secretariat*

[*Original: English*]
[*30 December 1975*]

CONTENTS



* Incorporating document TD/185/Corr.1.

CHAPTER I

## *Introduction*

1. The adoption by the General Assembly of the Declaration and the Programme of Action on the Establishment of a New International Economic Order in its resolutions 3201 (S-VI) and 3202 (S-VI) represents a landmark, in that it calls for a restructuring of the world economy with a view to correcting the persistent and inequitable imbalance in world production and trade between developed and developing countries. The Lima Declaration and Plan of Action on Industrial Development and Co-operation,[1] pursuing the same objectives, calls for major changes in the world industrial structure and for an increased share for the developing countries in world industrial output. The Lima Declaration provides (para. 28) that the share of developing countries "should be increased to the maximum possible extent and as far as possible to at least 25 per cent of total world industrial production by the year 2000, while making every endeavour to ensure that the industrial growth so achieved is distributed among developing countries as evenly as possible". General Assembly resolution 3362 (S-VII) on development and international economic co-operation further stresses the need for such changes.

2. The achievement of the above-mentioned objectives, and in particular of the Lima target, will have fundamental and far-reaching implications for the pattern and volume of exports of manufactures and semi-manufactures from the developing countries. The Lima Declaration states (*ibid.*) that the target share of 25 per cent "implies that the developing countries should increase their industrial growth at a rate considerably higher than the 8 per cent recommended in the International Development Strategy for the Second United Nations Development Decade". Estimates by the UNCTAD secretariat indicate that the rate would have to be at least 10 per cent per year. Correspondingly, the required rate of growth of manufactured exports from developing countries at constant prices has been estimated to be at least 12 per cent per year, implying a level of exports by the year 2000 equivalent to 20 times that of 1973.[2]

3. A concerted and vigorous co-operative endeavour on the part of both developing and developed countries will be necessary in order to attain the Lima target and to secure a substantial expansion and diversification of the export trade of the developing countries in manufactures and semi-manufactures. Efforts made hitherto, however, have had very limited success and this can be attributed to a variety of reasons, such as lack of appropriate measures in various areas relating to production and trade, insufficient implementation of such measures in others, and failure to co-ordinate measures designed to influence trade on the one hand and production capabilities on the other. Previous efforts have largely centred upon securing access to the markets of developed countries, insufficient attention having been paid to the need for opening up and expanding new channels of trade and for improving the supply capability of developing countries. What is therefore needed is a comprehensive strategy for increasing the developing countries' exports of manufactures which will cover all the various areas of concern and will take carefully into account to close interrelationship of industrialization and trade.

4. In his report to the Committee on Manufactures at its seventh session,[3] the Secretary-General of UNCTAD presented some of the elements of a comprehensive policy which would be needed to strengthen and diversify the exports of developing countries in manufactured and semi-manufactured products. The present report is a further elaboration of that report, taking into account recent developments, in particular the adoption of General Assembly resolution 3362 (S-VII) and the discussions in the Committee on Manufactures at its seventh session and in the Trade and Development Board at its fifteenth session.

5. A comprehensive strategy in the field of manufactures is a natural and necessary complement to the proposed integrated programme for commodities. Indeed, both sets of policies would be aimed at securing the same goal, namely, an accelerated and broadly-based economic development, including industrial development. Moreover, both programmes would be mutually supporting to the extent that they generated and/or mobilized the requisite domestic and foreign exchange resources and helped to build appropriate infrastructural facilities, *inter alia* in the fields of transportation, technology, and marketing and distribution. They would further complement each other in promoting the processing in developing countries of their own commodities and materials. They could in fact be considered as parts of an over-all package, including measures, relating to development finance and the transfer of technology, which should be of advantage to all developing countries.

6. The comprehensive strategy would involve a multidimensional approach capable of overcoming the various constraints and of bringing about new patterns of trade which would contribute to a substantial increase in the share of developing countries in world industrial activity. It would require a major reorientation of the industrialization and trade strategies of developing countries, as well as appropriate adaptation of the relevant policies of developed countries, and would broadly consist of the following elements:

(*a*) Improvement of the capability of the developing countries to supply exports of manufactures and semimanufactures;

[1] Adopted at the Second General Conference of UNIDO, held at Lima from 12 to 26 March 1975. For the text, see UNIDO publication PI/38.

[2] For further details on the implications of the Lima target for the industrial trade of the developing countries, see the report by the UNCTAD secretariat entitled "The dimensions of the restructuring of world manufacturing output and trade required in order to reach the Lima target" (TD/185/Supp.1) (to be issued as part one of a United Nations publication (TD/219).

[3] "A comprehensive policy for strengthening and diversifying the exports of developing countries in manufactures and semimanufactures: report by the Secretary-General of UNCTAD" (TD/B/C.2/153).

(*b*) Improvement in the conditions for expanding imports of manufactures from developing countries into developed market-economy countries and socialist countries of Eastern Europe;

(*c*) Increased trade and industrial co-operation among developing countries;

(*d*) An appropriate contribution from transnational corporations, and control of restrictive business practices generally;

(*e*) New forms of industrial collaboration arrangements at the intergovernmental and the inter-enterprise level regarding industrial development and trade.

7. It is not suggested that all the elements of the comprehensive strategy, or even large parts of them, are ripe for or capable of immediate implementation. Clearly, the strategy must be aimed at realizing certain long-term goals and targets extending into a third development decade and beyond. However, certain important elements, such as the removal of some of the constraints in industrialization and trade policies, are ripe for total or partial implementation now or in the near future. As regards other elements, the Conference may wish to initiate the necessary intensive study and subsequent consideration of them, so as to facilitate appropriate action as soon as possible. The main task of the Conference in this whole area is to gain a clear acceptance by the international community of the need for adopting a comprehensive strategy in the light of the long-term perspectives and goals of the New International Economic Order. In this connexion, the Conference will need to set in motion immediately the steps to be taken, which will involve vigorous efforts at the national level in both developed and developing countries, as well as internationally. Just as trade in manufactures has proved to be the dynamic element in the economic progress of the developed countries, so must it become the dynamic element in that of the developing countries. What must be done is to make exports of manufactures and semi-manufactures by developing countries the fulcrum of the dynamic economic development envisaged under the New International Economic Order.

## CHAPTER II

## *General policy implications of the comprehensive strategy*

8. The difficulties faced by developing countries in securing a substantial increase in their share in world industrial production and trade emanate principally from a combination of mutually reinforcing constraints and handicaps relating particularly to: inappropriate industrialization and commercial policies in the developing countries themselves; barriers erected by Governments of developed market-economy countries against exports from developing countries; the lack of adequate policies to assist the long-term restructuring of the industries of the developing countries so as to encourage rather than restrict their industrial exports; practices of business enterprises, including intra-firm arrangements of transnational corporations, which unduly restrict the ability of developing countries to expand and diversify their exports of manufactures; the lack of an adequate technological basis in the developing countries and their excessive dependence on expensive and inadequate foreign technology; the inadequacy of mechanisms to develop new and expand existing flows of trade among the developing countries themselves; and insufficient measures to expand trade between developing countries and the socialist countries of Eastern Europe.

9. The industrialization and commercial policies of developing countries have not so far succeeded in securing optimal results in terms of rapid, broad-based economic development. Many developing countries have followed an import-substitution strategy based upon high rates of effective protection and aimed at encouraging the domestic production of imported goods. The result has been high domestic prices for end products and a lack of stimulus to lower production costs and improve international competitiveness. Where industrialization has been on an export-oriented basis, the industries in question have to a large extent covered a narrow range of products facing sluggish, income-inelastic demand and high barriers in foreign markets. The pattern of income distribution which prevails in many developing countries has further limited the expansion of their domestic markets and has consequently imposed major limitations on the development of a broad-based industrial sector. Regional and sub-regional arrangements have been made by developing countries with a view to overcoming the limitations of national policies, but the results secured by such arrangements have fallen short of expectations.

10. Moreover, the pattern of industrial development in many developing countries has depended heavily upon attracting foreign firms, particularly transnational corporations. The operations of these firms, however, have frequently been predominantly import-oriented, rather than export-oriented, and have further catered principally for the demand of the more affluent consumers. This pattern has entailed a less than effective contribution by such firms either to the establishment in developing countries of a broad-based industrial sector or to any substantial expansion and diversification of those countries' exports of manufactures and semi-manufactures.

11. An appropriate reorientation of the policies of developing countries will need to be undertaken, in recognition of the shortcomings of present policies, and should aim principally at attaining the following general objectives: a faster-growing and more broadly-based industrialization; new forms of industrial activity to meet the basic needs of the population of developing countries for manufactures; greater collective self-reliance through increased mutual trade and economic co-operation; a more positive contribution from transnational corporations to industrial development in the developing countries, and the same time a reduction in those countries' dependence on such corporations. The attainment of these objectives would in turn result in a substantial improvement of the capability of developing countries to export increased quantities of manufactures not only to developed countries but also to each other.

12. As regards the commercial and industrial policies of developed market-economy countries, these have thus far lacked a long-term perspective favouring the adoption of measures to ensure an efficient allocation of domestic resources consonant with improvements in the competitive advantage of developing countries. In fact, these policies have hitherto essentially reflected *ad hoc* responses to specific problems and situations and have normally been intended to protect domestic interests which might be affected in the short run by competition from imports, particularly from developing countries. The result has been the imposition of governmental barriers to trade, as well as the provision of governmental assistance to inefficient domestic industries – in the form of subsidies or grants, though often combined with measures of restructuring – with a view to perpetuating the operation of such industries. Developing countries have thereby been prevented from exploiting fully their export potential in both existing and new lines of manufacturing activity, as changes in demand, factor use and technology shift the competitive advantage in their favour.

13. The developed market-economy countries will have to adopt a long-term outward-looking policy perspective aimed at facilitating the evolution of a pattern of import demand consistent with the increased share of developing countries in world industry and the associated increase in their export capability. Indeed, the realization of the Lima target is likely to require an increase in manufactured imports from developing countries into developed market-economy countries by the year 2000 to more than 15 times the level prevailing in 1973.[4] Such a long-term perspective should tend to promote and facilitate a smooth, continuous and dynamic transfer of domestic resources away from those lines of production in which developing countries have or secure a competitive advantage.

14. It has often been pointed out in this context that in developed market-economy countries the role of government in industrial restructuring is minimal and that the principal instrument of economic adjustment is the operation of the market mechanism. This, however, is only partially true. Government policies shaping the level and structure of industry are already very important in these countries and their importance is growing to a critical extent. Hence, the Governments of these countries should be vividly aware of the implications for their economies of an accelerated rate of industrial development in the developing countries and should deliberately plan and carry out the necessary outward-looking long-term policies. In the absence of such policies, they will repeatedley be faced with short-run problems of adjustment for which they may seek solutions by having recourse to protection. If the long-term perspective recommended above is adopted, immediate policy measures should therefore be taken by them to ensure trade liberalization and adjustment assistance.

15. Further restrictions on the ability of developing countries to expand and diversify their exports of manufactures have arisen from the practices of transnational corporations and other business enterprises of developed countries. These practices include cartel activities, tied purchasing and exclusive dealing arrangements having detrimental effects upon imports from developing countries. Likewise, restrictions on exports imposed by transnational corporations on subsidiaries/affiliates and licensees in developing countries, as well as manipulations related to intra-corporation transfer pricing, have adversely affected the ability of firms in developing countries to export manufactures and semi-manufactures. Measures will thus need to be taken to ensure both an adequate control of these restrictive business practices and an effective countervailing power for the indigenous enterprises in developing countries.

16. The attainment of the Lima target will also require a considerable expansion of trade in manufactures by developing countries, and this cannot be achieved solely by an increase, however great, in their exports to traditional markets, more particularly those of developed market-economy countries. The development and expansion of new trade flows will be necessary. economic co-operation among developing countries is accordingly necessary for this reason also (i.e. as an essential component of the comprehensive strategy) and not only for the purpose of securing greater self-reliance and bargaining power. Such co-operation should be pursued energetically on a sub-regional, regional and inter-regional basis, involving new institutional mechanisms and arrangements and calling for considerably increased mutual assistance and joint effort in economic planning, investment, production, trade, technology, finance and payments. At the inter-regional level, all these efforts could be supported and reinforced by a system of trade preferences among developing countries – a proposal which is outlined below with special reference to trade in manufactures.[5]

17. There is scope for a considerable expansion of economic co-operation between the socialist countries of Eastern Europe and developing countries, which would boost the developing countries' trade in manufactures. Despite their dynamic growth in recent years, exports of manufactures of developing countries to the socialist countries of Eastern Europe still form only a small proportion of the socialist countries' total imports and consumption. They provide an indication of the trade potential, given favourable conditions and adequate efforts on both sides. Favourable conditions could be provided within a long-term policy under which the planned import activities of the socialist countries would be undertaken in such a manner as to accommodate substantial increases in imports of manufactures from developing countries.

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[4] This estimate is based upon the hypothesis that exports of manufactures from developing countries to developed market-economy countries would equal imports of manufactures from those countries into developing countries, in contrast with the present situation, in which the developed market-economy countries export three times as much to the developing countries as they import from them (see document TD/185/Supp.1).

[5] For a detailed discussion of this proposal, see the report by the UNCTAD secretariat entitled "Elements of a programme of economic co-operation among developing countries" (TD/192/Supp.1 and Add.1 and 2).

18. Since the results of measures and policies to promote new channels and flows of trade among the developing countries themselves and between them and the socialist countries of Eastern Europe are likely to materialize only in the medium and the long term, the developed market-economy countries can be expected to remain the principal markets for the developing countries in the foreseeable future. In consequence, measures to secure liberal access to their markets must remain an essential element of the comprehensive strategy. The recognition of and importance attached to other elements of the strategy should not detract from the importance of liberal access to those markets.

19. In the following chapters, a number of policy suggestions are put forward on elements which appear to be essential for the effective formulation and implementation of the proposed comprehensive strategy. The elements have been classified principally according to whether they aim at improving conditions for expanding exports of manufactures from developing countries or at improving the capability of these countries to supply such exports. Some of the issues considered, however, have implications in both respects and are treated accordingly. This is the case with regard to the discussion of the role of transnational corporations and the control of restrictive business practices generally, and with regard to the question of international industrial collaboration arrangements. In the final chapter, some consideration is given to the implementation of the comprehensive strategy.

## CHAPTER III

## *Improvement of the conditions for expanding exports of manufactures from developing countries*

20. As indicated in chapter II above, conditions and policies for accelerating exports of manufactures and semi-manufactures from developing countries call for improvements in the developed market-economy countries, in the socialist countries of Eastern Europe and also in the developing countries themselves. The suggestions presented in this chapter are mainly directed at governmental obstacles and barriers. Similar obstacles are constituted by the restrictive practices of business enterprises, which are discussed in chapter V below.

### A. Improvement of conditions in developed market-economy countries

#### 1. *Liberalization of governmental barriers to trade*

21. The present report deals only with a limited number of issues relating to tariff and non-tariff barriers, particularly those not directly covered by the multilateral trade negotiations. As regards those negotiations, a discussion of relevant issues and recent developments and of the position taken by developing countries is contained in a separate report to the Conference.[6] However, a wide range of issues considered in the negotiations is likely to remain outstanding after the conclusion of the negotiations and intensified efforts will be needed to bring about greater ease of access to foreign markets for exports of developing countries. The lowering of tariffs as a result of the multilateral trade negotiations will call for increasing attention to be given to existing and new types of non-tariff barriers. Similarly, further measures need to be undertaken to deal with the various issues relating to tariff escalation and associated matters.

(a) *Improvement and consolidation of the GSP*

22. Despite important tariff reductions made by the developed countries in the post-war period, the level and structure of MFN tariffs still constitute a serious obstacle to the exports of developing countries. Moreover, tariff escalation (i.e. the progressive increase in the tariff with the level of processing provides much greater effective tariff protection than is suggested by the nominal level of tariffs.

23. With the implementation of the GSP, tariffs in preference-giving countries have been eliminated or reduced on a preferential basis in favour of developing countries on most industrial products, as well as on selected agricultural products, mainly in processed or semi-processed form. However, the GSP covers only a small part of current dutiable imports from developing countries and the system further suffers from a number of other shortcomings. Radical and early improvements in the scope, duration and legal status of the GSP are required if the objectives for which it was instituted, namely an increase in the export earnings of developing countries, the promotion of their industrialization and the acceleration of their rates of economic growth, are to be attained.

24. In this regard, the Conference may wish to consider the following suggestions:

(*a*) The system should be made more secure by the extension of its duration beyond the initial ten-year period and by making it a commitment binding on the preference-giving countries;

(*b*) The preferential margins should be protected to the maximum from erosion arising from tariff reductions accorded by preference-giving countries as a result or independently of the multilateral trade negotiations;

(*c*) Beneficiary status should be granted to all developing countries without reciprocity, discrimination or other conditions;

(*d*) All agricultural and industrial products of export interest to developing countries should be included in the system and preferential duty-free entry, without any limitations (ceilings, tariff quotas, maximum country amounts or competitive need criteria), should be extended to all such products;

(*e*) Further harmonization, liberalization and simplification of the rules or origin should also be undertaken;

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[6] Report by the UNCTAD secretariat entitled "Elements of a preferential system in trade among developing countries" (TD/192/Supp.2).

(*f*) In the improvement of the GSP, it should be taken into account that developing countries sharing their special tariff advantages as a result of the GSP expect to obtain new export opportunities in other developed-country markets which would at least compensate them.

25. It should be stressed that while the GSP opens up new trade opportunities for developing countries, if is for those countries themselves to implement more vigorous production and trade promotion measures in order to take advantage of the new opportunities. Technical assistance in connexion with the GSP can also greatly improve the utilization of the system.

(b) *Standstill*

26. General Assembly resolution 3362 (S-VII) provides, in section I, paragraph 7, that "developed countries should fully implement agreed provisions on the principle of standstill as regards imports from developing countries, and any departure should be subjected to such measures as consultations and multilateral surveillance and compensation, in accordance with internationally agreed criteria and procedures".

27. The question of standstill has already been widely discussed, and a number of agreements thereon have been successfully negotiated in UNCTAD, by the Committee on Manufactures in particular. Consideration should be given to the possibility of introducing consultation procedures and of multilateral surveillance with respect to the standstill. A number of suggestions in this connexion have been presented by the UNCTAD secretariat in studies relating to procedures for consultation and the criteria for multilateral surveillance.[7]

(c) *Compensation for export disruption*

28. In the context of the standstill, it would also seem important for the Conference to reach international agreement on compensation for export disruption caused to developing exporting countries by departures from the standstill. The principle of compensation should first be accepted and recognized and the nature of the compensation also agreed upon, be it in the form of a financial payment or of commercial concessions or advantages granted through industrial co-operation. This question should also be subject to appropriate consultations, appropriately connected with those relating to the question of the standstill itself.

(d) *Government procurement*

29. There is scope for developed countries to extend differential and more favourable treatment to developing countries in their government procurement policies. In this connexion, the Conference may wish to consider the following guidelines:

(*a*) Suppliers in developing countries should be accorded as far as possible the same treatment as domestic suppliers to the Government of goods and services and if this not feasible, the developing countries should be given more favourable treatment than developed countries through smaller preferential margins in favour of domestic producers vis-à-vis foreign suppliers;

(*b*) Developed countries should accord suppliers in developing countries more favourable treatment through the exclusion of import duties from the prices of products not covered by the GSP under tender for the purpose of the evaluation of bids;

(*c*) Government purchasing agencies in the developed market-economy countries should adopt additional informational and promotional measures, in order to enable suppliers from developing countries to comply with the various requirements and thereby secure a larger share of government purchases.

(e) *Advance implementation of trade liberalization measures*

30. The negotiation of and agreement on, within the framework of the multilateral trade negotiations, measures for the liberalization of tariff and non-tariff barriers are likely to go through a number of stages and will consequently require a long period of time for their completion. In view of the urgent needs of the developing countries, advance implementation of such measures in favour of developing countries should be agreed upon as an initial interim contribution in the context of the trade negotiations.

(f) *Tariff reclassification*

31. In order to facilitate the granting of more favourable tariff and non-tariff treatment to products of developing countries, such products should be identified and separately classified in the Brussels Nomenclature, as well as in the Customs tariffs of developed countries. Requests for reclassification have thus far been submitted by developing countries as regards hand-made/handicraft products and tropical products, and such requests should be expeditiously dealt with.

2. *Reorientation of industrial policies, including the adoption of appropriate adjustment assistance measures*

32. As indicated in chapter II above, the developed market-economy countries will need to adopt a long-term outward-looking policy designed to ensure a smooth, continuous and dynamic transfer of domestic resources away from those lines of production in which developing countries have or secure a competitive advantage, and thereby accommodate increased imports of manufactures from developing countries. Within the framework of such a long-term policy, adjustment assistance measures should be implemented, with a view to facilitating the requisite transfer of domestic resources.

33. Most developed market-economy countries have indeed what may be considered in general terms "adjustment assistance" policies and programmes. However, most of these policies and programmes are concerned with structural adaptation in a broad sense and are not specifically related to dislocation problems arising from compe-

[7] See in particular "Safeguards and standstill: note by the UNCTAD secretariat" (TD/B/C.2/R.4).

tition from imports. It would accordingly appear necessary for developed market-economy countries to adapt their adjustment assistance policies so as to make them an effective instrument for facilitating the establishment of a more efficient pattern of international trade and thus ensuring a smooth and continuous expansion of imports of manufactures from developing countries.

34. To this end, adjustment assistance measures should be made a preferred alternative to the imposition of new barriers aimed at protecting domestic activities from the dislocation that arises from increased import competition, particularly from developing countries. Such measures should further be defined clearly as measures to encourage the redeployment of affected factors of production into new, more efficient and viable activities not directly competitive with the imports which give rise to the need for adjustment.[8]

### B. Measures for expanding trade between developing countries and the socialist countries of Eastern Europe

35. Trade between developing countries and the socialist countries of Eastern Europe has been one of the most dynamic sectors of world trade, and economic relations between these two groups of countries have been markedly strengthened. Nevertheless, exports of manufactures from developing countries to the socialist countries of Eastern Europe are still rather low, accounting for about 10 per cent of their total exports of manufactures. The socialist countries of Eastern Europe and the developing countries should therefore continue their efforts to expand further and to diversify this trade. There are several interdependent areas in which action should be taken to this end.

#### 1. *Improvement of the institutional framework for trade*

36. Economic planning in the socialist countries and the growing role of economic programming and planning in developing countries allow a more intensive regulation of economic relations and trade in manufactures on a long-term basis. Through such regulation, stable and growing markets for the manufactured products or developing countries could be secured, and they would not be affected by cyclical and other fluctuations of prices and demand in the developed market-economy countries. The instrument for regulation is the long-term agreement. Long-term agreements on a bilateral or multilateral basis have been an important instrument for the co-operation in production and trade in manufactures and semi-manufactures of the socialist countries of Eastern Europe with the developing countries. They can serve as an effective means for accelerating the industrialization of the developing countries and expanding and diversifying their exports. Further improvements in the contents of the long-term agreements should be made in order to take into account the objectives of the Declaration and the Programme of Action on the Establishment of a New International Economic Order[9] and the Lima Declaration and Plan of Action;[10] the agreements should be extended to more developing countries, thus creating a solid institutional framework for a steady growth of mutually advantageous trade in manufactures and semi-manufactures between the developing countries and the socialist countries of Eastern Europe.

#### 2. *Industrial co-operation*

37. Industrial, technological, scientific and economic co-operation between developing countries and the socialist countries of Eastern Europe has been expanding rapidly and is likely to facilitate greatly their mutual trade in manufactures and semi-manufactures. The socialist countries of Eastern Europe have already taken steps for the creation in the developing countries of export production capacity and for the marketing of such production. They provide technical assistance in the construction of industrial undertakings in developing countries and in the training of cadres. They also accept, in partial repayment of credits granted in connexion with the delivery of complete plants and equipment to the developing countries, not only traditional exports, but also goods in demand in the socialist countries and produced by those plants.

38. Industrial co-operation should include the planning and exploitation of production and trade opportunities. Accordingly, industrial co-operation arrangements might provide for the establishment of joint groups for co-operation in planning within the framework of mixed intergovernmental commissions; the exchange of experience and information in the field of economic forecasting, the evaluation of projects, and the introduction into the plans of the respective countries of provisions which would facilitate co-operation projects and lead to a higher degree of integration of the production processes, with a resultant growth of trade in manufactures and semi-manufactures.

39. Industrial co-operation need not be limited to the developing countries' relations with individual socialist countries: it may also extend to relations between CMEA and the developing countries. The signing in 1975 by Iraq and Mexico of agreements with CMEA on economic demonstrates this possibility.

#### 3. *Improvement of access to markets*

40. In accordance with their joint declaration at the second part of the fourth session of the Special Committee on Preferences[11] and with Conference resolutions 15 (II) and 53 (III), the socialist countries of Eastern Europe grant, in the context of the GSP, tariff preferences and/or adopt

[8] More detailed suggestions on the forms of and criteria for adjustment assistance are contained in a note by the UNCTAD secretariat submitted to the Committee on Manufactures at its sixth session and entitled "Adjustment assistance measures" (TD/B/C.2/121, section IV).

[9] General Assembly resolutions 3201 (S-VI) and 3202 (S-VI) of 1 May 1974.

[10] See foot-note 1 above.

[11] *Official Records of the Trade and Development Board, Tenth Session, Supplement No. 6A* (TD/B/329/Rev.1), paras. 192 *et seq.*

other economic and foreign trade measures which as a rule are of a preferential nature and are designed to expand imports from developing countries. Energetic measures should be taken to improve substantially this preferential treatment, by action on such interdependent questions as those concerning import régimes, planning, procurement and consumption. The import régimes of the socialist countries of Eastern Europe should facilitate the import of manufactures and semi-manufactures from developing countries. Similarly, in economic planning in those countries, appropriate measures should be taken to expand the range of manufactured and semi-manufactured goods imported from developing countries. In their procurement policies, the socialist countries of Eastern Europe should include provisions for an automatic margin of price preference for imports of manufactured and semi-manufactured products from developing countries. Likewise, favourable conditions should be created for the consumption of manufactures and semi-manufactures imported from those countries.

### 4. *Collection, analysis and dissemination of trade information*

41. A thorough knowledge in developing countries of the institutional framework of foreign trade and of the commercial practices in the socialist countries of Eastern Europe would contribute considerably to making full use of trade opportunities existing with the latter countries. The socialist countries of Eastern Europe and the developing countries should therefore take appropriate action for collecting and analysing such information and disseminating it in a handy form to traders and industrialists in developing countries. In addition, direct business contacts should be promoted between foreign trade agencies of socialist countries of Eastern Europe and firms in developing countries, in order to identify new export possibilities and techniques of export development.

## C. Co-operation among developing countries for the expansion of their mutual trade in manufactures

42. Trade among developing countries at the regional and sub-regional levels, and even more at the interregional level, is far from having achieved its potential or matching the development needs of the developing countries, and needs to be considerably increased if the Lima target is to be reached. Indeed, estimates by the UNCTAD secretariat suggest that trade among developing countries in the year 2000 will need to be almost 40 times the present level if the Lima target is to be achieved.[12]

43. The realization of these potentialities will call for a wide range of innovative and dynamic measures of co-operation among the developing countries, going far beyond traditional forms of trade liberalization such as the reduction or elimination of tariff and non-tariff obstacles. Apart from Customs unions and free-trade areas of varying scope, these measures would need to include the conclusion of different forms of industrial collaboration arrangements, such as the establishment of multinational enterprises in specific productive and distributive sectors, sectoral arrangements to bring about co-operation in production, trade and marketing, the pooling and exchange of available technologies, and joint endeavours involving financial co-operation, payments and clearing arrangements.[13] All these measures would generate increased trade among the developing countries and also strengthen their collective self-reliance, as well as their role in the establishment of a new international economic order. They would further serve to strengthen the position of indigenous enterprises in manufacturing activities and in the international marketing and distribution by developing countries of their own products. Many of these measures have a bearing on a variety of issues which are dealt with in subsequent chapters of the present report, particularly those concerning improvement of the supply capability of developing countries, ways and means of encouraging increased participation of indigenous firms in import and export transactions, and the control of restrictive business practices.

44. At the same time, preferential measures in the field of trade, at the sub-regional, regional and interregional levels, by providing better commercial conditions for the expansion of trade among developing countries, would substantially reinforce the effectiveness of their economic co-operation in other areas. The effectiveness of a system of preferences could be ensured through the participation therein of all developing countries and by means of the liberalization on a preferential basis of tariff and non-tariff barriers and foreign exchange and payments restrictions, and of other restrictive measures. Since many developing countries rely heavily on exports of agricultural products and primary commodities, these products will need to be included in the preference system, along with manufactures and semi-manufactures.

45. The level of industrialization and general economic development varies widely among developing countries. The contribution of each developing country to mutual trade liberalization would, therefore, have to be commensurate with its level of industrial and economic development, taking also into account its development needs, including especially its needs in the field of trade and financing. In order to ensure equitable trade benefits for the less advanced developing countries, special measures in favour of these countries will need to be incorporated in the system and supplemented by financial and technical assistance within a comprehensive programme for economic co-operation among developing countries. While the contribution of individual developing countries would not be

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[12] See TD/185/Supp.1. See also TD/B/C.2/154, para. 8, and *Trade in manufactures and semi-manufactures of developing countries and territories: 1974 review* (United Nations publication, Sales No. E.76.II.D.8).

[13] For a detailed discussion of economic co-operation among developing countries, see the report of the Group of Experts which met at Geneva from 27 October to 4 November 1975 (TD/B/AC.19/1), and the report by the UNCTAD secretariat (TD/192) reproduced below.

based on reciprocity, it is essential that each should grant to all others treatment more favourable than that extended to developed countries individually or collectively.

46. The experience of past trade negotiations has shown that a broad approach to trade liberalization has been more effective than a product-by-product approach. It seems that a broad approach in negotiations for preferential trade liberalization among developing countries would also be more effective than a selective approach. The counterpart is the participation of all, or most, developing countries – and in any event the largest possible number – in the preference system and the extension of preferential tariff and non-tariff concessions over a sufficiently wide range of products, from which all developing countries can benefit.

47. The harmonization and dovetailing of the existing regional and sub-regional trade and economic co-operation arrangements with the global third-world preference system envisaged here would be both necessary and desirable. Far from hampering, the realization of the potential for economic co-operation among developing countries of the regional and at the sub-regional level, it would advance that potential and at the same time would not adversely affect but would rather promote the evolution and development of the global system, which also offers considerable growth potential. The modalities of such harmonization should be worked out with care.

48. Clearly, the negotiation of the concrete elements of a system of preferences among developing countries will require a great amount of complex technical study and examination by Governments, as well as by the international, regional and sub-regional institutions concerned, all of which will take time. An immediate beginning seems, however, desirable and urgent. The Conference may wish to decide how further action on this matter should be initiated.

CHAPTER IV

## *Improvement of the capacity of developing countries to supply exports of manufactures and semi-manufactures*

49. A substantial improvement of the capacity of developing countries to supply manufactured exports can only be achieved through a reorientation of their industrialization strategies along the lines suggested in chapter II above. Such reorientation will involve significant changes in policy in a variety of fields and will further require joint action by developing countries, particularly where more effective results can be achieved than through individual efforts. Matters requiring joint action include the establishment of multiple forms of joint industrial production and of the necessary marketing and distribution channels, the development of a suitable technological base through the adaptation of imported technologies to local needs, the avoidance of inappropriate foreign technologies and the development of indigenous technology based on countries' own technical and natural endowments, and the securing of more advantageous terms for the shipment of export cargoes.[14] Action by developing countries will need to be complemented by appropriate measures of support by developed countries and assistance from international organizations, particularly in the field of finance.

50. Other measures, proposed in subsequent chapters of the present report, would also increase the capacity of developing countries to supply exports of manufactures, and relate principally to the control of restrictive business practices, particularly those affecting the ability of developing countries to export, the improvement of the position of indigenous enterprises in production and trade in manufactures and semi-manufactures, and industrial collaboration arrangements aimed at promoting such production and trade in developing countries.

### A. Reorientation of the industrial and commercial policies of developing countries

#### 1. *Review of the structure of effective protection*

51. The developing countries should consider reviewing carefully their structure of protection in order to bring it into consistency with the required new patterns of industrial development and to enable it to contribute thereto. Many developing countries are alive to these considerations and take certain measures from time to time. There is, however, need for a more systematic review. Protective measures should be applied judiciously: they should give sufficient, but not excessive, protection if the stimulus to lower production costs and improve competitiveness is not to be lost. Action on these lines would tend to favour the home consumer and to enhance the ability of the domestic manufacturer to compete in foreign markets for manufactures and semi-manufactures.

52. Many developing countries would accordingly find it to their advantage to keep their structure of protection under regular review, in order to streamline and simplify procedures and to improve industrial efficiency and competitiveness. Such a review would necessarily involve foreign-exchange rate systems as well. In this connexion, an *ad hoc* group of experts could be set up in UNCTAD to undertake an in-depth examination of this question in the light of its importance and implications for the implementation of the comprehensive strategy.

#### 2. *Incentives for industrial exports*

53. The developing countries face serious problems in exporting manufactured goods because of their early stage of industrialization, with associated high production costs and wide gaps in technology and in the industrial, commercial and marketing infrastructure. As is the case with

[14] See in this connexion the reports by the UNCTAD secretariat entitled "Technological dependence: its nature, consequences and policy implications" (TD/190) and "Economic co-operation among developing countries" (TD/192), both reproduced below. See also chapter III. C of the present report.

protective measures, various types of export incentives are therefore necessary. The right of the developing countries to subsidize their exports of manufactures in order to overcome these problems should thus be recognized. In this connexion, the interests of the developing countries should be fully safeguarded, through differential and favourable treatment, in any code or codes of conduct that might be agreed upon for the regulation of export subsidies and countervailing duties.

54. As a general rule, exports from developing countries should be exempted from the application by developed countries of countervailing duties. In very exceptional cases, the developed countries might apply countervailing duties, provided they met internationally agreed criteria in this respect. A countervailing duty should be applied by a developed country only with the maximum restraint and only when there is a clear case of market disruption. Even then, the effect of the countervailing duty should be compared with the disruption of export markets it would cause for the developing country concerned.

55. In order to avoid competing with each other in subsidizing their exports, which could not be to their advantage, developing countries should take this possibility sufficiently into account in formulating their export incentive measures.

### 3. *Industrial and export finance*

56. The developing countries experience severe difficulties in securing, in sufficient volume and on suitable terms, the financial resources needed for their industrial development and trade. The facilities and institutions concerned with industrial and export finance, including those relating to export credit insurance, will thus need to be substantially strengthened and improved. Action in these matters will in many cases involve the establishment of new specialized institutions, either at the national level or by groups of developing countries. Substantial changes in existing banking policies, practices and laws will also be needed, in particular to encourage commercial banks to undertake a more development-oriented policy.

57. The availability of sufficient export finance, and its supply on competitive terms, as well as protection against foreign trade risks, are of importance for exporters of manufactured and semi-manufactured goods in the developing countries. Such exporters face two major disadvantages, compared with exporters in developed countries: the limited credit capacity of the domestic banking system as a result of the general scarcity of financial resources and the generally higher level of interest rates in the money market. Furthermore, credit competition in the field of exports of capital goods is particularly severe, as the major developed market-economy countries possess institutions which have been especially established for financing the export of capital goods and, with government assistance, provide such finance at interest rates below the market rates.

58. To provide for sufficient export finance on internationally competitive terms and for protection against foreign trade risks, the developing countries should consider the implementation of government-sponsored preferential export financing and export credit insurance schemes. The operation of government-backed preferential refinancing facilities for commercial banks would be a suitable means of increasing the availability of export finance and reducing its cost. The schemes should, however, be devised so as to avoid, so far as possible, undue strains on the public finances. To this end, there should be a co-ordination of efforts among the competent governmental institutions and commercial banks. A necessary complement to preferential export financing facilities would be the availability of government-supported export credit insurance schemes for providing protection against foreign trade risks.

### 4. *The strengthening of marketing and distribution channels*

59. Governments of developing countries should consider the possibility of promoting the establishment and operation of marketing and distribution systems by indigenous firms, individually or collectively, in order to facilitate the expansion both of trade among the developing countries themselves and of exports of manufactures to developed countries. Action in this respect would tend, *inter alia*, to offset the effect of restrictive business practices hampering the participation of developing countries in domestic and foreign markets. Efforts by Governments of developing countries could have a variety of purposes, including:

(*a*) The establishment of government-supported agencies in foreign markets, such as trade missions, export promotion boards and the like;

(*b*) The establishment of import/export trading houses at the national level and/or collectively for developing countries;

(*c*) The creation of direct marketing channels in the principal foreign markets for export products, both actual and potential;

(*d*) The establishment of enterprises at the national level and/or collectively for developing countries in respect of export production, through industrial collaboration arrangements or by other means, so as to enhance their marketing power and to provide more assured export outlets in developing countries.

(*e*) The greater use of advertising and of brand names in foreign markets, so as to establish consumer acceptance of their products.

60. Such action by developing countries would not only improve their import possibilities and facilitate exports, but also enable them, by the strengthening of their negotiating power, to secure, through the conclusion of suitable arrangements, improved access to the marketing and distribution channels of transnational corporations. In this context, the co-operation of transnational marketing corporations might be sought in expanding and diversifying exports of manufactures.

### B. International co-operation in industrial and export finance

#### 1. *Industrial financing*

61. The Governments of developed market-economy countries generally should consider measures to provide financial assistance for the industrial development of developing countries on a larger scale and on softer terms. The possibilities, it must be admitted, are closely related on the one hand to the over-all volume of their development assistance and on the other to the importance which they attach to the role of private enterprise in industrial development.[15] Nevertheless, they should consider ways and means of making more resources available for industrial development.

62. International financial institutions, including the World Bank Group and the regional development banks, are giving increasing attention to the financing of industrial dvelopment. The Lima Plan of Action recommended that developed countries should make increased financial contributions to international organizations and to government or credit institutions in developing countries to facilitate the financing of industrial development. It also recommended the establishment of an industrial development fund to increase the resources of UNIDO. The implementation of this recommendation would be of importance to UNCTAD also, in connexion with its work on certain elements of the comprehensive strategy.

#### 2. *Financing of exports from developing countries*

63. Governments of developed countries could consider action for improving the financial facilities granted to importers of manufactures from developing countries. In addition, measures should be taken to encourage importers to negotiate long-term purchase agreements with manufacturers and exporters in developing countries and to provide them with a major portion of the pre-shipment finance under pre-financing arrangements. A long-term export prospect would also serve to make the financing more attractive to commercial banks in developing countries.

64. Action at the international level along the following lines in the field of export credit would greatly facilitate the expansion of exports of manufactures from developing countries:

(*a*) The creation of preferential re-financing facilities in international, and particularly regional, lending institutions;

(*b*) The establishment of a multinational scheme to provide unconditional guarantees to holders of export paper arising from the grant of export credits by developing countries; the scheme could have the World Bank as one of its major participants;

(*c*) The establishment of multinational export credit insurance schemes which could provide direct insurance for exports in countries that do not have national schemes, as well as re-insurance for exports insured by national schemes.

[15] As regards the socialist countries of Eastern Europe in this connexion, see chapter III, B, above.

CHAPTER V

## *The role of transnational corporations in the trade in manufactures of developing countries and the control of restrictive business practices generally*

65. Restrictive business practices prevent or limit exports from developing countries to the markets of developed countries and to the markets of other developing countries. Their effects are thus akin to those of governmental tariff and non-tariff barriers. In consequence, appropriate action in this area has a bearing on the discussion in the two preceding chapters, namely on improvements of the conditions for expanding exports from developing countries and improvements in their supply capability.

66. Restrictive business practices arise essentially out of the exercise of dominant market power by firms either collectively, such as in cartel arrangements, or individually, such as in a monopoly or oligopoly market situation. It is in the latter context that specific attention needs to be paid to the role of transnational corporations in world trade and industrialization.

67. So far, only limited action has been taken to control restrictive business practices nationally and internationally. At the national level, there has been control only in so far as such practices have been considered detrimental to the public interest. It was for this reason that the General Assembly, in section I, paragraph 10, of its resolution 3362 (S-VII), decided that "restrictive business practices adversely affecting international trade, particularly that of developing countries, should be eliminated and efforts should be made at the national and international levels with the objective of negotiating a set of equitable principles and rules". In the present chapter, the practices that should be covered by such principles and rules, and the complementary action needed to strengthen the over-all export and import positions of developing countries in world trade, are examined.

### A. The role of transnational corporations

68. Transnational corporations play an important role in existing world trade and industrialization structures. While their activities are heavily concentrated in the developed countries, those in developing countries are by no means insignificant in terms of either their industrialization or their trade. Such corporations are major channels for the transfer of technology and for the provision of investment capital to developing countries. They provide a substantial part of their imports and have made an important contribution to their exports of manufactures, although these are still small. It is on account of the dominant market power which they hold in both developed and developing country markets that they are able to resort to a variety of restrictive business practices which limit the

actual and potential benefits accruing to developing countries from activities undertaken in their territories. For this reason, every effort must be made to regulate their use of restrictive business practices and thus to enhance their contribution to the trade of developing countries and to establish some form of countervailing power which will enable the developing host countries to increase their negotiating power in import and export transactions and reduce the market dominance of the corporations.

69. In consequence, a set of policies must be devised which, while seeking to maximize the contribution of transnational corporations to the trade and development of developing countries, would encourage greater economic self-reliance in these countries.[16] Hence, they must reflect a careful balance between incentives and controls. They must also constitute a package of mutually supporting measures in both developed and developing countries, since importing and exporting directly involve a close, interdependent, and even dependent, relationship among countries, and governmental and corporate action in this area invariably has effects which reach out beyond national frontiers.

70. Such policies will need to cover, first, restrictions on exports and imports as a result of:

(*a*) National and international foreign trade cartels involving transnational corporations;

(*b*) Exclusive dealing arrangements entered into by such corporations;

(*c*) Their territorial market and product allocation arrangements;

(*d*) Their use of industrial and intellectual property rights.

71. The objective should be the elimination or modification of those arrangements mentioned above which unjustifiably restrict or prevent the imports and exports of developing countries and which inflate prices of imports or depress prices of exports. In this context, greater flexibility must be introduced into market and product allocation arrangements, in order to eliminate tied purchases which are not economically and socially advantageous from the point of view of developing countries, to obtain greater involvment in exports by the subsidiaries and affiliates of transnational corporations in these countries, and to facilitate increased processing of products for export. Such action should, *inter alia*, enable developing countries to take fuller advantage of the marketing and distribution channels of the transnational corporations. With regard to the use of industrial and intellectual property rights to restrict or prevent imports and exports, equitable rules must be developed at the international level.

72. Secondly, such policies will also need to cover:

(*a*) Acquisitions, mergers and take-overs involving transnational corporations;

(*b*) Intra-corporation pricing policies in respect of imports and exports.

As regards acquisitions, suitable controls should be instituted to ensure that where they occur they are likely to contribute to a firm's immediate or longer-term ability to export and to greater economic efficiency, taking into account the over-all economic objectives of the country. Arrangements should also be made to ensure that such acquisitions do not result in any unnecessary "denationalization" of profitable indigenous firms capable of providing countervailing power or in any unnecessary elimination of competitive forces in world trade. In addition, greater attention must be paid to the effects of acquisitions, mergers and take-overs in developed countries on the trade of developing countries. As regards import and export prices in intra-company transactions, there should be greater supervision by the appropriate authorities to ensure that prices are reasonable and do not adversely affect the trade and development interests of developing countries.

73. Fiscal and financial incentives granted to transnational corporations should also be covered by such policies. Such incentives should, in principle, be limited in their scope and duration, so as to avoid wasteful use of existing and potential resources, and they should be designed to benefit indigenous firms to the same extent as the transnational corporations. Action should accordingly be taken to remove any negative effects that such incentives might have on the establishment, as well as the exports, of indigenous firms. Competition between developing countries in the provision of such incentives should, to the maximum extent possible, be minimized and every attempt made at the regional and sub-regional levels to harmonize such policies, in full cognizance of differing levels of development.

74. A number of measures have been proposed in chapter IV above (see section A-4) for improving the position of indigenous enterprises in developing countries in production for export, as well as in the marketing and distribution of their products. Such measures would strengthen the marketing power of indigenous enterprises and would therefore contribute to the acquisition of countervailing power by such firms vis-à-vis transnational corporations.

## B. The control of restrictive business practices generally

75. As already mentioned, restrictive business practices are not exclusive to transnational corporations. They are also engaged in by purely national enterprises in both developed and developing countries, and concerted action is therefore required in all countries to control them.

### 1. *Control of restrictive business practices in the developed countries*

76. As a result of the work of UNCTAD in the field of restrictive business practices, including the work of the two expert groups which have met since the third session of the

[16] For a discussion of the role of transnational corporations in the transfer of technology to developing countries and of appropriate remedial action in this field, see document TD/190 below.

Conference,[17] a basis now exists for reaching agreement on remedial action to be taken in developed countries. This should include the notification to national authorities and the registration, open to the public, of restrictive business practices likely to affect adversely the trade and development of developing countries and also new mechanisms for an exchange of information between developed and developing countries, in particular in respect of justifications for retaining particular practices. Modification and some harmonization of existing laws in developed countries will be required, in line with the equitable principles and rules to be drawn up at the international level.

### 2. *Control of restrictive business practices in the developing countries*

77. Just as restrictive business practices can inhibit exports to and imports from developed countries, so can they inhibit trade among developing countries. In consequence, developing countries will need to establish measures to regulate restrictive business practices affecting their mutual trade, as well as their exports to developed countries. They will need to introduce provisions, similar to those in existing economic integration and free-trade arrangements, into new regional, sub-regional and inter-regional trading arrangements and devise suitable procedures for their effective implementation.

78. In many cases, laws will need to be enacted in developing countries to control restrictive business practices adversely affecting their trade and development. Their enactment and implementation will inevitably call for technical assistance, given the general absence of expertise in this area in these countries. Suitable support action will be required at the international level.

### 3. *Action at the international level*

79. As already indicated, action at the international level is a prerequisite for a more effective control of restrictive business practices and, in particular, of those engaged in by transnational corporations. International action to draw up the set of equitable principles and rules called for by the General Assembly (see para. 67 above) will need to cover *inter alia*, collusive and collective inter-firm arrangements which can adversely affect the trade and development of developing countries. In this regard, appropriate controls will need to be formulated for the types of arrangement represented by international cartels, national foreign-trade cartels in the developed countries, and other cartels in those countries which can affect the price or entry of imports from developing countries, or for the practices used in the context of such arrangements. In addition, such principles and rules will need to cover the acquisition or abuse of dominant market power on an individual firm basis, including that arising out of the activities of transnational corporations at the national or international level, and also the use that firms can make of intellectual and industrial property rights to prevent or restrict imports and exports.

80. To support, supplement and ensure the effectiveness of such principles and rules, additional action is required at the international level. In this context, action by the Conference is required with respect to:

(*a*) The establishment of procedures for consultations on restrictive business practices affecting the trade and development of developing countries;

(*b*) Adequate arrangements for the collection and dissemination of information on restrictive business practices, as well as for an exchange of views relating to such information;

(*c*) The drafting of a model law or laws on restrictive business practices for developing countries;

(*d*) The establishment of training and technical assistance programmes geared to helping developing countries in their control of restrictive business practices, including regional and inter-regional workshops and seminars, and covering both the general and the specific aspects of the question.

## CHAPTER VI

## *Arrangements for industrial collaboration at the international level to facilitate the industrialization and trade of the developing countries*

81. The preceding chapters contain a number of suggestions on policy measures at the national and/or international level in the context of an over-all multidimensional approach for expanding and diversifying exports of manufactures from developing countries and thereby facilitating world industrial restructuring. Taken together, these measures could facilitate the conclusion and execution of industrial collaboration arrangements. Such arrangements, involving commercial, financial and technical matters, could greatly contribute to the achievement of the principal objectives of the comprehensive strategy, such as a more broadly based industrialization aimed at meeting basic needs, greater self-reliance on the part of developing countries, and reduced dependence on transnational corporations for industrial development. They could also serve, *inter alia*, the following purposes: to promote a more efficient and even distribution of industrial capacities both among developing countries and between developing and developed countries; to provide the means for the further processing of raw materials in the producer developing countries; to create new trading opportunities; to lessen the dominance of transnational corporations in developing countries and render their contribution to the industrialization of these countries more effective; to complement integration efforts at the regional and sub-regional levels; to facilitate co-operation among existing groupings, particularly of developing countries, as well as between such groupings and other developing and developed countries.

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[17] For the report of the first *Ad Hoc* Group of Experts on restrictive business practices, see *Restrictive business practices in relation to the trade and development of developing countries* (United Nations publication, Sales No. E.74.II.D.11), and for the report of the second Group, see *Official Records of the Trade and Development Board, Seventh Special Session, Annexes,* agenda item 2 (*b*), document TD/B/600.

82. Arrangements for industrial collaboration can play a key role in the redeployment of productive capacities in developed countries and the creation of new industrial facilities in developing countries, as envisaged in the Lima Declaration and Plan of Action, which called for urgent consultations on such redeployment. In its resolution 3362 (S-VIII), the General Assembly endorsed the establishment of a system of consultations on this matter. In view of the close link between the trade and production aspects of industrial co-operation, UNCTAD would be able to contribute to these consultations. It may be recalled that, in paragraph 4 of its resolution 131 (XV), the Trade and Development Board recommended the working out of appropriate co-operative and co-ordinating arrangements between the UNCTAD and UNIDO secretariats on international co-operation for industrial restructuring.

83. Industrial collaboration arrangements can be entered into at the enterprise and at the governmental level or both. They can be concluded, *inter alia*, between developed market-economy countries and developing countries. between socialist countries of Eastern Europe and developing countries, and among developing countries (see chap. III, C, above), as well as on a tripartite basis. Industrial collaboration arrangements can take various forms, (e.g. co-production and specialization agreements, joint ventures, licensing and sub-contracting agreements, joint tendering and marketing).

84. Industrial co-operation arrangements at the governmental or other levels play an important role in the economies of the socialist countries of Eastern Europe (see chap. III above). In the developed market-economy countries, industrial co-operation with developing countries has depended largely on the initiative of private enterprise. However, to a growing extent, Governments have recognized the need to undertake certain commitments in this field and have themselves initiated or intensified industrial collaboration arrangements with developing countries. For example, in a position paper submitted to the General Assembly at its seventh special session, the European Economic Community and its member States declared their willingness to strengthen co-operation on industrialization with the Governments of the developing countries and presented a proposal on forms of industrial co-operation between developed and developing countries, which provided for a system of consultations and for incentives for the establishment of industrial concerns in developing countries and suggested a joint study by developed and developing countries on the content of industrial co-operation agreements.[18] Mention may also be made of the suggestions contained in a report by a Commonwealth Expert Group on the formulation of a general set of guidelines for bilateral industrial co-operation based upon the sort of questions Governments and private industry wish to raise when they seek to work together.[19]

85. In February 1975, the European Economic Community concluded the Lomé Convention with 46 developing countries in Africa, the Caribbean and the Pacific. The Convention contains a special chapter on industrial co-operation. With the exception of trade co-operation, which is covered in a separate chapter, the provisions on industrial co-operation cover: infrastructure; development linked with industrialization (transport, energy, research, training schemes, etc.); help with setting up manufacturing companies, especially those processing raw materials; industrial training schemes; specific action regarding access to technology and its adaptation; special schemes to help small and medium-sized firms; information, research and promotion drives; measures for trade promotion, etc. The Convention also provides for a number of institutions for the promotion of industrial co-operation.[20]

86. To facilitate manufacturing activities and the export of goods produced under industrial collaboration arrangements, consideration should be given to including in such arrangements suitable provisions on:

(*a*) The settlement of any legal disputes that may arise;

(*b*) The form of the accounting procedures to be followed;

(*c*) The granting of equitable tax concessions;

(*d*) Appropriate governmental and non-governmental guarantees concerning commercial risks;

(*e*) Appropriate governmental and non-governmental guarantees against non-commercial risks.

87. Moreover, to facilitate trade under such arrangements, consideration should be given to the inclusion of the products covered by them in the schemes of generalized preferences of the participating developed countries. The elimination of quantitative restrictions and other non-tariff barriers affecting exports and imports of the products, and the simplification of Customs procedures and licensing and trade documentation arrangements, as well as the establishment of appropriate safeguard provisions and consultation procedures concerning market disruption.

88. To encourage industrial collaboration arrangements, developing countries must give a clear indication of the priority areas to which they would like them to apply. In addition, they will need to week out suitable partners in their own countries who will co-operate with interested foreign enterprises.

89. An important role in enhancing industrial collaboration arrangements can also be played by oil-producing developing countries. Indeed, it is now possible for these countries to enter into tripartite industrial collaboration arrangements, (i.e. with other developing countries and with developed market-economy countries and socialist countries of Eastern Europe), under which they would be the principal suppliers fo financial capital. Industiral collaboration arrangements with oil-producing countries either on a tripartite or on a bipartite basis can further serve to facilitate the processing in other developing countries of

[18] A/AC.176/2.

[19] *Towards a New International Economic Order: report by a Commonwealth Expert Group* (London, Commonwealth Secretariat, 1975); circulated to the Conference under cover of a note by the Secretary-General of UNCTAD (TD/198).

[20] For the text of the Lomé Convention, see *Official Journal of the European Communities*, vol. 19, No. L 25, 30 January 1976.

their domestically produced commodities, as well as the production of petroleum derivatives.

90. International organizations would have to provide considerable assistance to facilitate the formulation and operation of the proposed arrangements. In this connexion, appropriate technical and financial assistance would need to be provided, particularly by UNDP and other international financial institutions. Assistance in other important aspects would mainly involve co-operation on technical matters, the collection, evaluation and dissemination of information, and the establishment of suitable systems of consultation. These are matters essentially related to industrial development and trade and action thereon would therefore call for the renewed and strengthened co-ordination of activities between the various international organizations concerned, in particular UNCTAD and UNIDO.

CHAPTER VII

## *Implementation of the comprehensive strategy*

91. The establishment of the New International Economic Order and, in particular, the attainment of the target of the Lima Declaration of a 25 per cent share in world industrial output for developing countries by the year 2000, will have far-reaching implications for international trade, and notably for trade in manufactures and semi-manufactures. Very large increases in the trade among the developing countries themselves, as well as in trade between developing countries on the one hand and developed market-economy countries and socialist countries of Eastern Europe on the other, will be entailed.

92. The comprehensive strategy outlined in the present report would aim at meeting the trade requirements of the New International Economic Order and of the Lima Declaration and Plan of Action and implies a substantial increase in national and international efforts. Implementation of the strategy would also require a reorientation of industrial and commercial policies in developing countries, developed market-economy countries and the socialist countries of Eastern Europe. Considerably greater efforts would therefore need to be undertaken within UNCTAD to these ends.

93. The interdependence of industrialization and trade should also be recognized and, in this context, greater joint efforts should be made by both UNIDO and UNCTAD. The Secretary-General of UNCTAD and the Executive Director of UNIDO are already actively engaged in consultations concerning ways and means of undertaking joint efforts to carry out the Lima Plan of Action.

94. The Conference may wish to endorse the comprehensive strategy and programme outlined in this report and indicate the further work to be carried out in UNCTAD both on the intergovernmental plane and by the secretariat, especially in the key areas of the strategy.

# DOCUMENT TD/185/Supp.2

## The role of transnational corporations in the trade in manufactures and semi-manufactures of developing countries

*Report by the UNCTAD secretariat*

[*Original: English*]
[*30 December 1975*]

CONTENTS



### *Introduction*

1. The enormous spread and growth in the activities of transnational corporations during the past 20 years has been a major factor in establishing the present structure of world industrialization and trading patterns. Their activities cover all economic sectors – agriculture, mining, manufacturing, services including banking, insurance and shipping, as well as wholesale and retail trading. Their power in these sectors has become dominant, enabling them to influence world supply and demand patterns, especially through their ownership of or control over capital, technology and its development, their generation of particular management skills, and the close tie-up in their activities between production, marketing and distribution.

2. One important instrument which has enabled transnational corporations to create and consolidate their dominant market power at the national and international levels has been the development of their corporate strategies on a centralized basis in respect of their activities globally. There are, by and large, certain elements which are common in these strategies and the analysis of these, in terms of their likely impact on the trade in manufactures and semi-manufactures of developing countries, is the subject of the present report.

3. Whilst the bulk of the transnational corporations' trade in manufactures and semi-manufactures is between developed countries, that with the developing countries is neither insignificant nor unimportant to them. This is so, first, on account of the fact that developing country markets are important outlets for many of the finished and intermediaire products manufactured by the corporations. Secondly, although their manufacturing operations in developing countries are essentially oriented towards satisfying domestic demand on an individual basis in these countries, such operations provide supplies of a number of manufactured and semi-manufactured inputs required for these corporations' manufacturing operations and other activities in developed countries and sometimes also in other developing countries.

#### A. Imports from transnational corporations

4. Developing countries depend heavily upon imports of manufactures and semi-manufactures for their industrial-

ization. Such imports originate to a large extent with transnational corporations, since the majority of them come from developed countries and are supplied by transnational corporations based in those countries; furthermore, of the imports from other developing countries, an important part probably comes from subsidiaries of transnational corporations.

5. The bulk of the imports of manufactures and semi-manufactures of developing countries, to the value of $71.1 billion in 1973,[1] consists of machinery and transport equipment, chemicals, electrical goods, processed food and iron and steel. Well over 80 per cent of such imports originate in the developed market-economy countries and transnational corporations in these countries play a dominant role in many of these product groups. Similarly, in respect of exchanges between developing countries, an important part consists of chemicals and machinery, including spare parts – sectors in which transnational corporations are the principal producers in the developing countries. In this latter context, it is also necessary to take into account the role of transnational corporations in economic integration arrangements among developing countries at the sub-regional and regional level, such as in the Latin American Free Trade Association, the Caribbean Community and the Andean Group.

6. Given the scarcity of published data on the activities of transnational corporations in the import operations of developing countries, it is not possible to indicate the precise extent to which manufactured and semi-manufactured products exported by transnational corporations are directly imported by transnational corporations in developing countries. Nevertheless, on the basis of the information available, it can be stated that intra-corporation transactions form an important part of the developing countries' imports. Such imports involve not only capital goods but also inputs for their manufacturing operations. In this respect, it should be noted that transnational corporations' manufacturing activities in developing countries tend to be heavily import-oriented. For example, in Brazil and Mexico, the import content of the total material costs of United States majority-owned affiliates was 24 per cent and 31 per cent respectively in 1972; of these amounts, 50 per cent and 59 per cent respectively were supplied by the parent system. In addition, although subsidiaries and affiliates in developing countries often engage in only a limited range of the manufacturing activities of the corporation as a whole, they also operate as important import distributor outlets for other products manufactured by the parent and other subsidiaries, especially in developed countries.

7. In respect of finished goods imported, indigenous firms in developing countries, as well as affiliates of transnational corporations established there, will frequently hold sole importer/distributor rights under arrangements with transnational corporations in the developed country of origin of the goods.

[1] Provisional f.o.b. estimate, SITC classifications 5 to 8 less 68.

8. The dependence of developing countries on imports is clearly recognized and, as industrialization progresses in these countries, so will their import demands grow, and probably at an even faster rate. To a great extent, this demand will continue to be met by products of transnational corporations. For this reason, it is important that greater attention than in the past should be paid to the question of transnational corporations' activities as they affect the imports of developing countries.

### B. Exports by transnational corporations operating in developing countries

9. As already mentioned, the manufacturing activities of transnational corporations in developing countries have been mainly directed towards the provision of goods for local consumption, a reflection in part of the import-substitution policies of these countries. Nevertheless, in recent years the volume of exports, although still small, has increased – especially in relation to the total sales of such corporations in developing countries – and the industries involved are comparatively few in number. For example, in the engineering sector, this has concerned in particular the motor vehicle industry, a number of developing countries having placed pressure on transnational corporations to export. In certain cases, plant expansion and levels of imports have been conditional on specified export levels being achieved. In the case of new entrants in this and other import-substitution activities, prior commitments concerning exports have also been required.

10. Textiles, leather, sawn wood and metal manufactures used to constitute the bulk of the developing countries' exports of manufactures and semi-manufactures. Transnational corporations would seem to have been less heavily involved in these industries than in others. However, their involvement may well have increased in recent years, in particular as the result of the introduction of new technologies, for example, the use of man-made fibres in the textile industry. Such involvement would seem to have taken the form of take-overs of indigenous firms already engaged in these industries, as well as the establishment of new plants.

11. In the late 1960s and the 1970s, there has been an increase in the processing of indigenous primary commodities in developing countries, including the processing of bauxite into alumina, sawn wood into plywood and veneers, iron ore into pellets, leather into leather manufactures, and food items into frozen and canned products. The transnational corporations' major role in this process has often resulted from their original involvement in the production of the primary commodities in question, and from direct pressure being exerted by the Governments of these countries for the export of at least part of the production in more processed forms. In certain cases, the labour-intensive nature of the processing activities has also been an important consideration.

12. Certain finished manufactured goods of the developing countries have begun to appear on world markets during the last decade. The principal examples are clothing,

sports goods, toys, furniture, wigs and items of plastic. A major development in this area, however, would seem to be the exports from so-called off-shore operations, in which transnational corporations have played a major role, and which have involved the establishment of certain specialized labour-intensive activities in developing countries. For example, it is already a common practice for a number of transnational corporations of developed countries to send raw materials or components to certain developing countries for labour-intensive assembling or processing. The products so manufactured are then re-imported into the industrialized countries or exported elsewhere for assembling, finishing or final sale. This process was started in the electronics industry and has since expanded to such items as electrical appliances, small machines, optical equipment, musical instruments, cameras and watches. Most significantly, there is evidence that major industries, like the motor vehicle, aerospace and machine-tool industries, are starting to move in the same direction.

13. As is the case with imports, a substantial proportion of the exports of manufactures by transnational corporations takes the form of intra-company transactions. For example, in Brazil and Mexico, intra-company transactions have accounted for 73 per cent and 82 per cent respectively of the exports of manufactures by affiliates with majority ownership held in the United States of America.

### C. Imports and exports by transnational marketing corporations

14. A little-explored though still important and perhaps even growing feature of international trade is the activity of the transnational marketing corporations or middlemen. The most obvious examples of such transnational corporations are the top ten Japanese trading houses, which operate as both importers and exporters, not only of products to and from Japan but also of products between third countries. They account for 50 per cent and 60 per cent of Japan's exports and imports respectively. In the case of Europe and the United States of America, such corporations also exist but seemingly on a far smaller scale. The bulk of such firms' activities is in a number of cases concentrated outside their country of origin.

15. With the diversification in the operations of many transnational corporations on vertical and conglomerate bases, a number of such corporations have acquired or established transnational marketing affiliates and affiliates directly involved in retailing. Moreover, a number of the large retail houses both in the United States of America and in Europe are becoming transnational in character and this has been accompanied by the development of purchasing arrangements, in particular on a sub-contracting basis, with firms in developed and developing countries. Products of particular importance in this regard are textiles, clothing and footwear, as well as a number of other light manufactured products.

## CHAPTER I

## *The effects of the activities of the transnational corporations, and in particular of their practices, on the trade of developing countries*

16. Transnational corporations command to a large extent, as a result of their dominant market power, oligopolistic and monopolistic market positions in respect of the production and marketing of semi-manufactured and manufactured goods imported and exported by the developing countries. As a consequence of this, market structures at the national and international levels are grossly defective and, in turn, have provided scope for the use of practices on an individual and collective basis which can have both positive and negative effects on the trade of developing countries.

17. One of the most important elements of the corporate strategies of transnational corporations is their territorial market and product allocation arrangements. Such arrangements form an integral part of their short and long-term strategies for maximizing profits on a global basis.

18. In devising their territorial market and product allocation arrangement, the transnational corporations take a number of decisions which, to a greater or lesser extent, involve restrictive business practices. These include:

(*a*) Decisions on exports and imports; namely, as to which parts of the corporation (the parent company or the affiliate) will export and the products they will handle, and to which markets they can go; and which parts of the corporation will import products and by whom they will be supplied;

(*b*) Decisions on the levels of production and the types of productive activities that can be engaged in;

(*c*) Decisions on purchases of capital equipment and inputs used in productive activities by the various parts of the corporation, in particular, the centralizing of purchases from outside the corporation;

(*d*) Decisions on the use of industrial and intellectual property rights, as well as of know-how belonging to the corporation; in particular, whether such rights will be registered in various countries in the name of the parent company or of the subsidiary; whether they can be licensed to third parties, and the use that can be made of these, namely, whether they are to be used for manufacturing or for import purposes only;

(*e*) Decisions on which firms outside the corporation will act as distributors for their products; in this regard, exclusive dealing arrangements of a sole import distributor character are frequently entered into with independent firms involving:

- (i) Obligations concerning the purchase of products other than those which are the principal object of the arrangements;
- (ii) Restrictions on the handling or manufacture of competing products;
- (iii) Restrictions on the types of customers to whom, and the forms in which, the imported products can be sold;

(iv) Refusal to sell or supply products to other firms in the countries covered by the arrangements.

19. Closely connected with the territorial market and product allocation arrangements of the transnational corporations are their policies regarding acquisitions, mergers and take-overs. These policies involve:

(*a*) The practices of the corporation with regard to the expansion and diversification of its activities horizontally and vertically, including backward and forward integration of activities, and diversification on a conglomerate basis, both nationally and internationally;

(*b*) Their practices and attitudes vis-à-vis competitors or likely competitors and partners in particular markets.

20. Allied with the territorial market and product allocation arrangements are the pricing policies of the corporations. Such policies encompass:

(*a*) The transfer prices to be charged for products exported and imported on an intra-corporation transaction basis;

(*b*) The fixing of prices to be charged to outside purchasers, including the fixing of sale and resale prices for products imported and exported, and boycott action where these are not complied with.

21. Transnational corporations' strategies can also involve collective action with other firms, both transnational and non-transnational. Such collective action can involve and affect both exports and imports by the developing countries. In this connexion, a number of arrangements can be entered into involving:

(*a*) The fixing of prices for particular markets of the products exported and imported;

(*b*) Collusive tendering in respect of import tenders called by developing countries; that is, agreements as to who will tender, in what amounts, and at what prices;

(*c*) Allocation of markets for exports and imports to particular members participating in the arrangements;

(*d*) Co-operation with regard to the manufacture of products, for example, through the mutual exchange of technology, agreements on the level of production and specialization of activities amongst members;

(*e*) Collective action to enforce the arrangements agreed upon.

### A. The likely effects in respect of imports

22. There are a number of potential advantages for the developing countries as a result of obtaining their imports from transnational corporations. The extent to which such advantages are realized or counterbalanced by disadvantages will vary from case to case and from country to country. The principal potential advantages are essentially threefold, namely:

(*a*) The ability of developing countries to obtain the import supplies necessary for their industrial development;

(*b*) The reliability of transnational corporations in meeting import demands, in providing products of suitable guaranteed quality and in providing efficient after-sales service;

(*c*) The supply of such goods at favourable prices and on favourable terms.

23. Transnational corporations play an important role in satisfying the developing countries' import demands, particularly where they supply goods such as capital equipment and other inputs crucial to their industrial development.

24. Many transnational corporations have extensive and well developed international production and marketing systems. In certain cases, they also have their own communication and transport facilities. On account of the size and the international focus in their operations, it should be possible for developing countries to derive a number of benefits that would not otherwise be obtainable, for example, if the products were supplied by essentially domestically-oriented foreign firms which tend to view export operations as of only marginal importance. In addition, through their heavy investment in research and development, they are in a position to design products especially suited to the needs of developing countries or to adapt existing products to meet local conditions. Examples are refrigerators, air-conditioners, elevators, coal-mining equipment, transport equipment and agricultural machinery suited to tropical conditions.

25. As a result of the generally large-scale operations of transnational corporations and specialization in various areas of productive activities, important cost savings must arise which, in turn, may be translated into lower prices for their products. This could well be an important factor in respect of imports of such items as heavy industrial equipment. In addition, because of their capital resources and their access to the capital market, transnational corporations are in a better position to supply such products on favourable credit terms.

26. Oligopolistic market positions are generally characterized by price rigidity and therefore relative price stability. In consequence, from the point of view of the imports of developing countries, relative price stability, in periods of normal, inflationary economic conditions, could be an advantage. On the other hand, in periods of recession, it may also mean that prices tend to fall at a slower rate than if the market prices were determined by a more competitive market structure. Moreover, as a result of such price rigidity, developing countries may well not benefit from cheaper imports of the products in question at times of currency devaluations in the supplying developed country. However, when devaluations occur in developing countries, in all probability prices in real terms for such imports will rise.

27. Inevitably, oligopolistic and monopolistic market structures in respect of the supply of imports to developing countries entail certain disadvantages. These result essentially from three kinds of restrictive business practices of transnational corporations, namely:

(*a*) Restrictions on imports resulting from the territorial market and product allocation arrangements of the transnational corporations;

(*b*) Price-fixing;

(*c*) Concerted or collusive action by transnational corporations in respect of the supply and pricing of imports to developing countries.

28. Transnational corporations, including transnational marketing corporations, tend to create narrow distribution channels for their products in developed countries. This is done in particular through exclusive dealing or sole import distribution arrangements. In this context, under the territorial market and product allocation arrangements, the parent or a particular subsidiary is assigned the right to supply the imports to a particular subsidiary or independent firm in a developing country, which in turn has the sole right to import and distribute the products in question. Such monopoly rights often cover not only the principal products of the corporation but also other products, both related and unrelated. These arrangements are facilitated by the use that can be made of industrial and intellectual property rights, in particular patents and trade-marks, to control imports. For example, a sole import distributor can invoke such rights to prevent other firms from importing the same or similar products which originate with the actual supplier or another affiliate or licensee of the transnational corporation in foreign countries.

29. In consequence, such arrangements tend to reduce competition in respect of imports and to introduce elements of monopoly behaviour which can affect the supply and prices of the imports in question, as well as the industrial development of developing countries. For instance, the volume of imports may be restricted to create an artificial shortage and hence to raise import prices. Imports may also be brought in at artificially low prices (dumping or predatory pricing) with the object of eliminating or preventing local manufacture of a competing product. In addition, because of their monopoly power, after-sales services may well be affected; for example, the emphasis may be on the replacement of such goods rather than the import of spare parts for their repair.

30. To the extent that transnational corporations can obtain, in respect of the supply, import and subsequent sale of their products in developing countries, a monopoly position through their territorial market and product allocation arrangements and their ownership of patents and trade-marks, they are in a position to establish monopoly prices. Not only are such prices likely to be higher than would otherwise be the case, but also they are likely to discriminate as between one market and another, since such prices will be established according to what the transnational corporation considers each market can bear, taking into account the prevailing levels of import protection, market size, degree of market dominance, etc. An example in this connexion would seem to be the pricing policies of transnational corporations in respect of the supply, import and subsequent sale and resale of drugs.[2] Moreover, there would seem to be evidence of a similar situation in respect of imports of machinery.

31. Closely related to the question of the transnational corporations' pricing policies is the use they make of their pricing mechanism to manipulate prices; the objective of this is to maximize profits to the corporations' over-all advantage. For example, by overcharging on imports supplied to a subsidiary, the corporation can either reduce the level of the taxable profits of that subsidiary earned from its subsequent sale of such imports at oligopoly and monopoly prices, or reduce the taxable profits earned from its manufacturing operations in which such imports are used. Such tax evasion obviously has adverse effects on a developing country's balance of payments and on its financial resources, in particular since it will limit those which are available for industrial development generally.

32. Concerted or collusive action between transnational corporations in respect of the supply of imports to developing countries is well established.[3] It is notable that such cartel activity is especially marked in such industrial sectors as those producing inorganic chemicals, electrical engineering equipment, iron and steel and metal products, the major items imported by developing countries.[4] Such action, which involves the allocation of import markets in developing countries as between various transnational corporations, the establishment of quotas in respect of the products supplied, agreement on the prices to be charged and the import tenders to be submitted, inevitably reinforces the established monopoly market power in respect of the supply of such imports to developing countries and thereby facilitates and ensures the type of disadvantages referred to above.

33. In consequence, there has developed a structural tendency towards continuing dependence by developing countries on imports from transnational corporations. These corporations have been able, on an individual and collective basis, to use their dominant market power at the national and international levels to circumvent inroads into their traditional import markets, both by potential foreign competitors and by domestic firms in developing countries.

34. A related problem stemming from the situation of dependence is that economic integration arrangements among developing countries tend to benefit transnational corporations more than existing or new indigenous enterprises. The trading patterns existing prior to the arrangements tend to intensify rather than to undergo any basic change, given the well-established position of transnational corporations in individual countries participating in the arrangements. For example, a subsidiary in a participating country which previously imported products for that market will be responsible for imports for all participating countries after the arrangements come into force.

[2] See in particular the report by the UNCTAD secretariat entitled "Review of major developments in the area of restrictive business practices" (TD/B/C.2/159 and Corr.1), paras. 42-50. In addition, see also the study prepared in co-operation with the UNCTAD secretariat by Dr. Sanjaya Lall and entitled "Major issues in transfer of technology to developing countries: a case study of the pharmaceutical industry" (TD/B/C.6/4).

[3] See in particular the report by the UNCTAD secretariat entitled "Informational requirements for the control of restrictive business practices originating with firms of developing countries" (TD/B/C.2/156 and Corr.2), chap. I.

[4] In this connexion, see the report of the OECD Committee of Experts on Restrictive Business Practices, OECD, *Export Cartels* (Paris, 1974).

### B. The likely effects in respect of exports

35. Transnational corporations are well equipped to provide a series of vital inputs which developing countries need for their industrial development and export. Most important of these include the supply of capital, technology, managerial skills, and the availability of a well-established marketing and distribution network. The potential benefits of these may diminish, for example, where loan capital is raised locally and may therefore be diverted from domestic firms, and where imported technology is inappropriate or obsolete.

36. The territorial product and market arrangements of transnational corporations have a direct bearing on the export activities of developing countries. When such arrangements provide a subsidiary with an assured market for its exports, they are beneficial to both the corporation and the developing country in question. This applies whether exports are effected by an essentially import-substituting firm or by an export-oriented firm. However, it has been a relatively common practice for transnational firms to prohibit or otherwise restrict exports from their manufacturing subsidiaries or affiliates in the developing countries. These restrictions, on an implicit or explicit basis, result in the isolation of domestic markets and limitations on the scope and levels of production. In addition, the industrial and intellectual property rights systems have facilitated and, to a large extent, guaranteed the effectiveness of such restrictions.

37. As already mentioned, transnational corporations in developing countries have begun to export manufactures in increasing quantities. This is partly as a result of rising production costs and difficult labour conditions in developed countries. It has also resulted from economies of scale obtained from enlarged production facilities in developing countries, and is also a direct response to increased governmental pressures on transnational corporations to export, as well as to the provision of export incentives.

38. To an increasing extent, it would seem that the export of such products has been directed to neighbouring developing countries. In part, this can be attributed to the suitability of the products for these markets and to the formation of economic integration arrangements among developing countries. Economic integration schemes may have resulted in the rationalization of the industrial structures and in greater economic efficiency. However, to the extent that transnational corporations under their territorial and market allocation arrangements prevent the realization of full export potential, they impede the full realization of the benefits which could otherwise accrue to the developing countries. On the other hand, the active promotion of the exports of transnational corporations could work to the detriment of the export potential of locally-owned firms and of their development on a regional basis.

39. With respect to off-shore operations, one clear benefit of these activities is that they guarantee and open up access to foreign markets which would probably otherwise not exist. Such operations are either an integral part of the vertical integration production process of a transnational corporation, or stem from the development of activities on a horizontal basis. However, the actual benefits to developing countries of off-shore operations can be overestimated, since exports frequently have a substantial import content, and the domestic spread effects are often limited where such operations are carried on in enclaves, for instance free-zone processing areas.

40. The market power of transnational corporations is often obtained or consolidated through the take-over of indigenous firms. To an important extent, these would seem to be well-established and sometimes large, profit-making indigenous concerns. Take-overs frequently involve a gradual process where an initial link by association or equity develops into virtually complete foreign control. The greater the dependency relationship from the beginning, the greater the likelihood of such an eventual take-over. Take-overs can have positive effects on a developing country if they lead to the firm acquired becoming more efficient and if they foster improved capacity to export, for instance by improving the design of the product or by opening up new channels for export. In certain cases, take-overs also represent a rescue operation for an ailing firm. On the other hand, where the take-over is that of an already well-established indigenous firm with dominant market power, and where it is already engaged in exporting, then the negative effects may outweigh the positive ones.

41. Transfer pricing can be used to promote or impede exports, in that prices of inputs as well as of outputs can be established artificially. To the extent that the inputs can be purchased at prices lower than world market prices, this can benefit the subsidiary's export prospects. As point out earlier, however, the subsidiary may buy essential inputs at prices higher than the world market prices, and this may in turn lead to inability or reduced ability to export. Further, under-payment for goods exported limits the foreign-exchange earnings which may accrue to developing countries and over-pricing of exports may reduce the amount that can be sold. Customs authorities face difficulties in controlling such activities; there are frequently no comparable world market prices available for the products in respect of transactions on an intra-corporation basis, and shadow pricing is a task for which Customs officials are not at present equipped. This may be one of the reasons for little action being taken in this area in developed and developing countries alike.

42. An important issue, not involving the manufacturing activities of transnational corporations in developing countries, is that of the sub-contracting purchases of such corporations and, in particular, of transnational marketing corporations. Orders of this nature are obviously beneficial and provide an assured export market for the products in question. To the extent, however, that the size of the order placed represents a substantial part of the total business of a particular firm and that there is no guarantee concerning its recurrence, the order can present difficulties for the firm in question. In this connexion, it is important to recognize that certain sub-contracting orders depend upon the vagaries of demand patterns and tastes in developed countries. Such orders are more vulnerable to cyclical

fluctuations than is generally the case with other export activities, and this necessitates the avoidance of undue dependence on transactions of this kind.

43. Transnational corporations do not always act individually. Their strategies can also involve collective action with other firms within national and international external trade cartels. The anti-competitive trade effects of international cartels are even more serious than those of national export cartels. The former nearly always create barriers to international trade, even though they may involve positive aspects, such as the pooling of patents or exchange of technology. Even in this case, they can have negative effects if developing countries are prevented from obtaining the patents or technology in question.

44. The adverse effects of such arrangements on developing countries have been clearly acknowledged by the OECD Committee of Experts on Restrictive Business Practices: "Firstly, export cartels may affect the price and supply of inputs used in exporting industries of developing countries by discriminatory practices and by the refusal to sell certain materials or equipment to developing countries. Secondly, export cartels of enterprises in developed countries may engage in monopolistic practices against their less powerful competitors in developing countries. Thirdly, export interests of developing countries may be adversely affected by international market allocations binding also subsidiaries of cartel members in the developing countries concerned".[5]

45. The lack of appropriate data makes it difficult to determine the precise net effects of transnational corporations' activities on the trade of developing countries. However, available information does seem to indicate that the adverse effects are probably greater in the area of imports than in that of exports.

CHAPTER II

## *The relationship of governmental policies to the activities of transnational corporations in developing countries*

46. A wide range of governmental policies, in both developed and developing countries, affect the activities of transnational corporations in developing countries. Such policies directly influence in particular the decision of a transnational corporation as to whether or not to invest in a particular developing country and the form and extent of its activities and modes of operation. In the present report, emphasis is placed particularly on the consideration of the modes of operation of transnational corporations, and in this context it would seem that a number of the policies adopted both in developed and developing countries have directly facilitated and even promoted the use of restrictive business practices.

47. Paradoxically, whilst under their policies with regard to competition many Governments of developed countries have been concerned with controlling concerted or collusive action by independent firms affecting domestic competition, they have generally shown little or no concern with action by related firms, or the constituent parts of transnational corporations at home and abroad, which has the same effects. This *carte blanche* for such intra-corporation action has caused a bias in the structure of industry favouring the creation and maintenance of dominant market power on an oligopolistic basis, and especially at the international level, through the activities of transnational corporations. More particularly, it has favoured acquisitions, mergers and take-overs of previously independent firms at the national and international levels. A number of Governments have also directly encouraged such industrial reorganization – as for example in the electrical industries – citing as justification the requirements of modern technology including the need for economies of scale and the structure of the international market favouring large-scale units of production and units providing a wide range of products and services. Such developments have tended to result in the strengthening of barriers to new entrants in particular branches of industry and thus the consolidation of industrial structures in which a special position is ensured, and even reserved, for the transnational corporations. In the case of the developing countries, this has contributed to a reinforcement of uneven world industrial and trading structures favouring the activities of such corporations based in developed countries. In consequence, in order to participate in these structures, developing countries have seen advantage in co-operating with and seeking the assistance of such corporations.

48. A number of other governmental policies in developed countries have supported these developments. These include procurement policies favouring purchases from domestic enterprises and increased government involvement, financially and otherwise, in these enterprises – for example, in the textile, motor vehicle, petroleum and iron and steel industries.

49. In contrast to the present governmental policies on competition in developed countries, with their emphasis on controlling collusive or collective action between independent enterprises affecting the domestic market, there has been a lack of concern with similar action when it affected foreign markets. Indeed, as the establishment of international cartels and national external trade cartels involving transnational corporations has been permitted and even encouraged, the international trade structures to which the developing countries have had to adjust have become increasingly oligopolistic and even monopolistic.

50. Other governmental policies have likewise reinforced this trading structure. For example, under bilateral tied-aid arrangements, imports by a developing country of particular products are, in effect, tied, as far as supply is concerned, to certain firms, frequently of a transnational character, in a developed country. Another example is provided by governmental policies with respect to the workings of the industrial and intellectual property systems, namely, patents, trade-marks, copyrights and industrial designs. These have to a large extent legitimized the transnational corporations' ability to regulate imports and

[5] OECD, *op. cit.*, para. 145.

exports under their territorial market and product allocation arrangements.

51. As pointed out in chapter I above, the likely effects on the developing countries of these developments in the international trading structure are the payment of higher prices for their imports, in certain cases inability to obtain imports, and difficulties in marketing their exports when faced with such monopolistic practices.[6]

52. Such developments have also been influenced by certain of the policies adopted in developing countries. Many developing countries, in seeking the assistance of transnational corporations to promote their industrialization and exports, have offered a wide range of fiscal and financial incentives and other types of concession to attract them. To a certain extent, there would seem to have been competition amongst developing countries in the provision of such incentives. Within the framework of such policies, little or no attention would seem to have been paid to the restrictive business practices engaged in by such corporations; the practices were either unnoticed or, if noticed, left unchallenged.

53. Such policies have tended to reflect the actual or supposed dependence of developing countries on transnational corporations for much of their industrial development, and especially with regard to the supply of technology and managerial skills. At the same time, aspects of their policies may, in certain circumstances, have discouraged or prevented the establishment of indigenously-owned industries, or forced their closure or take-over, in particular by transnational corporations. For example, transnational corporations, as a result of the diversity of their activities in developing countries, have generally been in a better position than indigenous firms to benefit from fiscal and other incentives granted by governments. Transnational corporations have been able to use tax concessions granted in respect of one sphere of their activities in developing countries (e.g. the establishment of industries in backward areas) against high profits earned in other spheres (e.g. that of imports), on account of their ability to consolidate taxable earnings. Similarly, because of their financial standing and repute, transnational corporations have inevitably had favoured access to local credit facilities. Where such facilities are in short supply, this could have resulted in shortages of credit to indigenous firms. In addition, certain manufacturing activities, especially those undertaken in free processing zones, have in many cases been almost exclusively reserved for foreign firms, in particular transnational corporations.

54. Because of the dependence of developing countries on transnational corporations, the latter have frequently been able to obtain favoured market positions. This has included the assurance of a virtual monopoly position in respect of the local manufacture of particular products. In addition, such a monopoly position in respect of manufacture has often been extended to the subsequent sale of products, on account of the developing countries' wish to conserve foreign exchange by eliminating possible imports of competitive products. The end result of this would seem to have been in many cases high monopoly profits for the corporations in question.

55. By adopting – perhaps without any real alternative – patent, trade-mark, copyright and industrial design systems similar to those in developed countries, Governments in developing countries have directly facilitated the territorial market and product allocation arrangements of the transnational corporations. This has probably also led to a greater dependence on the activities of these corporations than otherwise would be the case. The protection afforded to foreign trade-marks has encouraged the affixing of such marks to products sold in developing countries. It has created consumer preferences for such products and, in turn, led to greater dependence on these corporations for the manufacture of the products in question. It has also inhibited and probably discouraged competing production by domestically-owned firms, given the marketing obstacles connected with the launching of new products in competition with well-established foreign trade-marked products.

56. On account of the absence in most developing countries of controls in the area of restrictive business practices, a number of additional problems may well have arisen. For example, the absence of controls on cartel activity has, in certain cases, led to subsidiaries in developing countries being parties to national and international cartel arrangements in developed countries.[7] Moreover, it may well have been the case that transnational corporations in developing countries have established import cartels as structural links with the national and international export cartels which these corporations operate in developed countries. As such, the cartels represent not a defensive response to the existence of oligopoly and monopoly power but a reinforcement of such power.

57. Confronted thus with world industrial and trading structures embodying oligopolistic and monopolistic practices, erected to an important extent by transnational corporations of developed countries and supported directly and indirectly by governments, it is not surprising that developing countries should now be seeking the establishment of a new international economic order. It is also probably inevitable, and, to a certain extent, logical and necessary, that developing countries should be striving to protect their export and import interests through the establishment of countervailing power on an individual and collective basis. This is occurring, for example, through the formation of state trading agencies with monopoly rights with regard to imports and exports, the establishment of large national enterprises of both a state and mixed state/private enterprise character to enhance their bargaining and working power in respect of imports and

[6] This has been particularly recognized by the OECD Committee of Experts on Restrictive Business Practices (*op. cit.*, paras. 145 and 146).

[7] For example, the subsidiary in Mexico of the United Kingdom firm, Bridon, is a party to the export cartels in the United Kingdom in the field of wire ropes and to the associated international cartel arrangements (see United Kingdom, Monopolies Commission, *Wire and Fibre Ropes: a report on the supply and exports of wire rope and fibre rope and cordage* (London, Her Majesty's Stationery Office, 1973)).

exports, and through concerted action between developing countries to regulate production and prices of raw materials exported to developed countries.

CHAPTER III

## *National and international policies in respect of the role of transnational corporations in the trade in manufactures and semi-manufactures of the developing countries*

58. An essential ingredient of the New International Economic Order must be a set of policies in respect of the role of transnational corporations in the trade in manufactures and semi-manufactures of the developing countries. This set of policies must aim at optimizing these corporations' contribution to the trade of the developing countries, whilst at the same time encouraging greater self-reliance and therefore less dependence in these countries on the operations of transnational corporations. In so doing, the policies must achieve a careful balance between incentives and controls.[8]

59. In addition, the set of policies to be applied must represent a package of mutually supporting measures in both developed and developing countries. Action by only certain countries, or even by a group of countries, is generally likely to be of only limited effect, given the nature of the issue. Importing and exporting demand a close relationship involving interdependence, and even a degree of dependence of countries on each other. Governmental and corporate action in this area invariably involves effects extending beyond any one country's national frontiers, and this is probably best exemplified in the activities of the transnational corporations.

60. In the light of the above observations, policies should be considered in regard *inter alia*, to:

(*a*) The drawing up of equitable principles and rules at the international level, for implementation at the national level, in respect of the import and export transactions of transnational corporations; in this regard there would seem to be a need for the following aspects to be covered:

(i) National and international external trade cartels involving transnational corporations; the objective of action in this area should be the elimination of those cartels likely to affect adversely the exports and imports of developing countries;

(ii) Exclusive dealing arrangements; action should be taken to modify or eliminate those arrangements which unjustifiably restrict imports and exports of developing countries and raise the prices of imports or depress the prices of exports;

(iii) Restrictions on imports and exports as a result of the territorial market and product allocation arrangements of the transnational corporations; in this regard, greater flexibility must be introduced into such arrangements, in particular with the objective of:

1. Eliminating tied purchases which are not necessary or economically advantageous from the point of view of developing countries;
2. Obtaining greater involvement in exports by the subsidiaries and affiliates of transnational corporations in developing countries;
3. Enabling the local processing of products for export to be increased;

Such action should enable developing countries to benefit more fully from the availability of the marketing and distribution channels of the transnational corporations;

(iv) Restrictions on imports and exports resulting from the workings of the industrial and intellectual property rights systems; in this context, principles need to be established to provide equitable and internationally agreed rules in respect of the use that can be made of such rights to restrict or prevent imports and exports;

(v) The concept of specific commitments with regard to exports and imports by transnational corporations; such commitments should provide for planned increases in the levels of exports from developing countries over as long a period as is feasible;

(vi) Acquisitions, mergers and take-overs by transnational corporations; suitable controls should be instituted to ensure that where they occur, they are likely:

1. To contribute to the firm's immediate or longer-term ability to export;
2. To lead to greater economic efficiency, regard being had to the over-all economic objectives of the country concerned;
3. Not to result in the unnecessary "denationalization" of profitable indigenous firms capable of providing countervailing market power;
4. Not to result in the unnecessary elimination of competing forces in world trade;

Greater account than in the past needs to be taken of the consequences of acquisitions, mergers and take-overs in developed countries for the trade of developing countries;

(vii) Pricing policies of transnational corporations in respect of imports and exports generally; there should be greater supervision by appropriate authorities over prices in import and export transactions, to ensure that the prices established are reasonable and do not affect adversely the trade and development interests of developing countries;

(viii) Suitable measures at the national and international levels to train personnel for work in this area; such

[8] The question of appropriate incentives falls largely outside the scope of the present report, as does the question of the extent or otherwise of the equity ownership of transnational corporations in their subsidiaries and affiliates.

training should be provided not only for officials directly engaged in work on restrictive business practices, but also for other officials, such as Customs officials directly involved in the assessment of import and export transactions;

(ix) The fiscal and financial incentives granted to transnational corporations in respect of export operations; these should be limited in their extent and duration to avoid the wasteful use of existing and potential resources and should be designed to benefit indigenous firms as much as transnational corporations, action being taken in particular to remove any disincentives that they might constitute to the establishment of indigenous firms and to exports by indigenous firms; competition between developing countries in the provision of such incentives should, to the extent possible, be minimized and every attempt made at the regional and sub-regional levels to harmonize such incentives, full account being taken of differing levels of development;

(x) Suitable mechanisms at the national and international levels to facilitate an exchange of information amongst developed and developing countries in respect of the points dealt with above; for example, exchange of information between countries on prices applying to particular intra-corporation transactions would help to evaluate the reasonableness of such prices;

(*b*) The development of ways and means to encourage increased participation by indigenous firms in developing countries in import and export transactions, so as to enhance the countervailing power at those firms' disposal, consideration being given to:

(i) The establishment of import/export trading houses on an individual and/or collective basis amongst developing countries, which would be one way of increasing and improving their market power vis-à-vis the market power of transnational corporations in respect of the supply of imports and the sale of exports;

(ii) The establishment by firms in developing countries of their own direct marketing channels in their principal foreign markets for actual or potential export products;

(iii) The establishment of enterprises on an individual and/or collective basis amongst developing countries to handle production for export, and the conclusion of industrial collaboration agreements to enhance their marketing power and to provide more assured export outlets for their products in the markets to which they already export;

(iv) The greater use of advertising and own brand names in foreign markets to establish consumer acceptance for their products; in this connexion, the co-operation of transnational marketing corporations might be sought, in view of their expertise in this area.

61. In devising an appropriate and workable set of policies in respect of the role of transnational corporations in the trade in manufactures and semi-manufactures of the developing countries, full account will need to be taken of the already established general policy objectives at the national and international levels bearing on this field of work. The underlying objective of much of the work should be the establishment of a more equitable international trading system.

62. Efforts must be continued at the international level to reach an appropriate consensus in this area, embodying complementary action both by Governments and enterprises. With this in view, the Conference, at its fourth session, may wish to institute the necessary measures for the carrying out of the work, including the setting up of a time-table for its completion.

# DOCUMENT TD/187

## Developments in the multilateral trade negotiations

### *Report by the UNCTAD secretariat*

*[Original: English]*
*[2 February 1976]*

CONTENTS



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CHAPTER I

## *Introduction*

1. The main purpose of the present report is to assist the Conference in reviewing the developments relating to the multilateral trade negotiations and in making recommendations aimed at maximizing the benefits that could accrue to the developing countries from the negotiations.

2. The multilateral trade negotiations could bring substantial trade advantages to the developing countries, provided that they are conducted with a determination to achieve that objective and in fact succeed in achieving it. Their results could have important effects on development in those countries. This is indeed why resolutions of the General Assembly and of the Conference have emphasized that all developing countries should be given the oppor-

tunity to participate fully, effectively and continuously in the negotiations at all stages. In the present report, an attempt is made to formulate certain suggestions on a number of issues under negotiation in respect of both substance and procedure, from the developing countries' point of view.

3. It should be stressed, however, that an evaluation of the role and importance of the multilateral trade negotiations which referred solely or largely to their immediate and short-term potential in securing trade concessions would have only limited meaning. Rather, a proper and more meaningful assessment would need to be made in the broad global context of the New International Economic Order recommended by the General Assembly in its resolution 3202 (S-VI) and against the background of the urgent need for fundamental structural and institutional changes in the world economy, designed to accelerate the economic development of the developing countries. Due recognition should also be given in such an assessment to the interdependence of trade, financial and monetary problems and to the importance of devising a set of concerted and co-ordinated measures which would effectively alleviate the highly critical and vulnerable position of the developing countries.

4. According to the Tokyo Declaration,[1] the multilateral trade negotiations have two related objectives: (*a*) liberalize world trade, providing a more favourable framework for the conduct and expansion of international trade, and (*b*) secure additional benefits for the international trade of the developing countries, through a substantial improvement in the conditions of access for the products of interest to those countries and, wherever appropriate, measures designed to attain stable, equitable and remunerative prices for primary products. The Tokyo Declaration also recognizes the importance of the application of differential measures to developing countries in ways which will provide special and more favourable treatment for them in areas of the negotiations where this is feasible and appropriate.[2]

5. The multilateral trade negotiations are conducted within the framework and scope of the General Agreement on Tariffs and Trade and the philosophy embodied in that instrument. In fact, the Tokyo Declaration has reaffirmed the GATT principles, rules and disciplines. The negotiations are not, therefore, designed to tackle the stubborn, long-standing fundamental trade and development problems of the developing countries in a number of critical areas. An integrated programme for commodities, development finance, industrial development, comprehensive strategy for exports of manufactures and semi-manufactures, special measures for the least-developed among the developing countries, transfer of technology, operations and practices of transnational corporations — all these are by and large either virtually outside the scope of the multilateral trade negotiations or only peripherally touched by them. The same is true of two other matters of considerable importance to developing countries, namely, comprehensive measures for increased co-operation among the developing countries themselves, and relations with countries belonging to different economic and social systems. These considerations should contribute to forming a realistic appraisal of the potentialities of the multilateral trade negotiations; at the same time, they underscore the critical urgency of parallel action on these problems in UNCTAD and other United Nations institutions.

[1] Declaration of Ministers, approved at Tokyo on 14 September 1973 (for the text, see GATT, *Basic Instruments and Selected Documents, Twentieth Supplement* (Sales No. GATT/1974-1), p. 19).

[2] *Ibid.*, p. 20, para. 5.

## CHAPTER II

## *Review of the negotiations*

### A. Background

6. At the conclusion of the Kennedy Round of trade negotiations in 1967, a programme of preparatory work for subsequent multilateral negotiations was established in GATT. In early 1972, joint declarations by the United States of America, the European Communities and Japan, supported by other developed countries, announced the intention to enter into a new round of multilateral trade negotiations. The Conference noted this intention at its third session, held at Santiago, Chile, in 1972, when it adopted resolution 82 (III) dealing with the participation of developing countries and the objectives pursued by them in the multilateral negotiations. In September 1973, the negotiations were officially launched at a meeting held at Tokyo and attended at ministerial level by over 100 developed and developing countries wishing to take part.

### B. Work of the Trade Negotiations Committee and its groups

7. The aims and objectives of the multilateral trade negotiations are embodied in the Tokyo Declaration, which provided for the establishment of a Trade Negotiations Committee with authority to elaborate and put into effect detailed trade negotiating plans, to establish appropriate negotiating procedures, including special procedures for the negotiations between developed and developing countries, and to supervise the progress of the negotiations.[3] However, negotiations did not commence on a serious basis until the beginning of 1975, after the passage of the United States Trade Act of 1974. In February 1975, the Trade Negotiations Committee established six Groups which were to organize and conduct negotiations on the topics specified in paragraph 3 of the Tokyo Declaration, namely, tariffs, non-tariff measures, the sectoral approach, safeguards, agriculture, and tropical products.

8. In the Trade Negotiations Committee, and in particular at the meeting held in December 1975, developing

[3] *Ibid.*, p. 22, para. 10.

countries have deplored the lack of progress in the negotiations, and especially the failure to establish special procedures for negotiations between developed and developing countries on all the subjects covered by the multilateral trade negotiations. The main points emphasized by the developing countries as giving rise to concern on their part have been:

(*a*) The need to define methods for applying differential measures to developing countries in ways which will provide special and more favourable treatment to them. Although encouraged by the fact that certain developed countries had recognized that such differential treatment would be feasible and appropriate in certain areas of the negotiations (e.g. with regard to subsidies and countervailing duties), developing countries have stressed the necessity of devising differential measures which would be applicable throughout the range of trade relations between developed and developing countries, with a view to the establishment of a new and more vigorous structure for world trade. In this context, developing countries have proposed that the Trade Negotiations Committee should undertake a reform of the General Agreement, commencing with a systematic examination of the GATT articles, and in particular envisage a strengthening of Part IV of the Agreement.[4]

(*b*) The danger of a growing tendency towards bilateralism in the negotiations, and the need to preserve their multilateral character. Developing countries have expressed concern that in certain areas of the negotiations they would be presented with solutions arrived at between developed countries as *faits accomplis*, and have emphasized that the multilateral trade negotiations are not negotiations among a few parties but form part of a broader series of efforts designed to create a new world economic order. They have also emphasized that the bilateral approach in negotiations between developed and developing countries would almost invariably raise questions of reciprocity.

(*c*) The need to preserve gains already achieved by developing countries, including the preservation and improvement of the generalized system of preferences and the provision of compensation for any erosion in preferential margins, taking into account the relevant interests of developing countries enjoying special advantages and the need for finding ways and means of protecting their interests.

(*d*) The application of the principle of generalized preferential treatment in favour of developing countries to non-tariff barriers and other trade policy measures.

(*e*) Priority treatment for tropical products.

(*f*) The application of the principle of non-reciprocity. Certain developing countries have stated that they would be prepared to make a contribution to the negotiations consistent with their development, financial and trade needs, but only when they have the firm prospect of receiving the additional benefits that they will derive from the over-all results of the negotiations.

(*g*) Advance implementation of concessions in their favour, in particular concessions with regard to tariffs, liberalization of quotas and quantitative restrictions, and early action with regard to tropical products.

9. At its most recent meeting, the Trade Negotiations Committee reviewed the progress made by its various sub-groups and reached agreement as to the progress that might reasonably be expected in 1976, noting that many countries had proposed that the negotiations should be completed during 1977. The following passages summarize the progress made up to 31 December 1975 and describe briefly some of the main issues dealt with in various groups and their implications for the trade of the developing countries.

### 1. *Group on Tariffs*

10. The Group on Tariffs has considered various issues, including suggested variants for a tariff-cutting formula of general application. However, no decision has been made on whether such a formula would apply to industrial goods only, or whether it would also cover agricultural products. What is of major concern to developing countries with regard to tariffs is that special procedures should be adopted for the participation of developing countries in the tariff negotiations which would make the following provisions, among others:

(*a*) Additional benefits to developing countries in any agreed formula;

(*b*) Increased security of the GSP and preferential margins for products of special export interest to developing countries should be guaranteed in special schedules of concession; any erosion of the GSP margins should be compensated for in tariff and other areas of trade negotiations and the GSP should become a long-term instrument of development co-operation;

(*c*) Deeper than average most-favoured-nation cuts in tariffs on products not likely to be covered by the GSP, and in particular in the tariffs on those products of which developing countries are major or important suppliers;

(*d*) The advance implementation of MFN tariff cuts in favour of developing countries in respect of products not included in the GSP;

(*e*) The non-inclusion of products of export interest to developing countries not covered by the GSP in the lists of exceptions of the preference-giving countries;

(*f*) The elimination or substantial reduction of tariff escalation affecting products of developing countries.

11. The Trade Negotiations Committee, at its December 1975 meeting, considered it reasonable to expect that agreement on the major elements of a tariff-negotiating plan could be reached during 1976.

### 2. *Group on Non-tariff Measures*

12. The Group on Non-tariff Measures has set up four sub-groups to deal with (*a*) quantitative restrictions, (*b*) subsidies and countervailing duties, (*c*) technical barriers

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[4] See also chapter V below.

to trade, and (*d*) Customs matters. The Group has not been able, however, to agree upon a second list of non-tariff measures to be dealt with at a multilateral conference, nor has it succeeded in working out procedures for dealing with the agricultural aspects of the non-tariff measures so far discussed. As regards the list of non-tariff measures, it is of particular concern to the developing countries that action should be taken to ensure that certain other non-tariff measures, including government procurement, anti-dumping practices, minimum import prices, variable levies, internal charges and import deposit schemes, are dealt with effectively in the negotiations.

13. The following paragraphs summarize the progress of the work of the various sub-groups.

(a) *Sub-Group on Quantitative Restrictions*

14. The Sub-Group on Quantitative Restrictions is in the initial process of bilateral or plurilateral consultations or discussions following an agreed procedure under which exporting countries specify the countries to be consulted, the restrictions maintained, and the products affected. A number of developed and developing countries are at present holding consultations. By January 1976, 27 participants, including 19 developing countries, had submitted notifications relating to restrictions imposed by 44 countries or groups of countries, of which 17 are developing countries members of the Group of 77.

15. A number of issues bearing on the scope and substance of the consultations and future negotiations, which also cover licensing, are of particular concern to the developing countries. These include:

(*a*) Standstill on new import restrictions, including the so-called "voluntary" export restraints, affecting exports of developing countries;

(*b*) Advance implementation of measures for the removal, phasing out, or gradual enlargement of existing quotas, with appropriate growth elements, in favour of developing countries;

(*c*) Inclusion of all products of export interest to developing countries, including textiles and agricultural products, in the scope of the consultations and negotiations;

(*d*) Exclusion of quantitative restrictions applied by developing countries under the relevant GATT provisions, including part IV of the General Agreement;

(*e*) As far as licensing is concerned, non-discrimination, administrative flexibility, simplification and harmonization of procedures, measures to ensure the full utilization and carry-over of unused portions of quotas.

16. At its December meeting, the Trade Negotiations Committee considered it reasonable to expect that an agreed procedure for achieving a meaningful liberalization of quantitative restrictions would be worked out in 1976.

(b) *Sub-Group on Subsidies and Countervailing Duties*

17. The Sub-Group on Subsidies and Countervailing Duties has examined various suggestions relating to subsidies and countervailing duties. Developing countries have submitted precise proposals concerning the way in which differential and more favourable treatment for these countries might be achieved, through the following measures among others;

(*a*) Pending the conclusion of the negotiations, non-application of countervailing duties to the exports of developing countries;

(*b*) The exemption of developing countries, as a general rule, from countervailing duties, except in special cases and under multilaterally agreed procedures;

(*c*) Recognition of the right of developing countries to accord export subsidies in the context of their development and industrialization policies as a means of promoting diversification and improving the rate of growth of their exports.

18. The Trade Negotiations Committee considered that an agreed approach to negotiations on subsidies and countervailing duties could be expected in 1976.

(c) *Sub-Group on Technical Barriers*

19. The Sub-Group on Technical Barriers has been considering the various questions and specific suggestions submitted by participants relating to the text of the proposed code of conduct for preventing technical barriers to trade. Among the main preoccupations of the developing countries, particularly as regards mandatory standards, are the following:

(*a*) Developing countries should not be required to adopt standards, including packaging and labelling regulations and methods for assuring conformity with standards, inconsistent with their development needs;

(*b*) Developing countries would need reasonably longer periods of time to conform with the obligations of the code, which should be more flexible in its application to these countries;

(*c*) Adequate provision should be made for supplying information and technical assistance to developing countries that would enable them to conform with standards applicable to their export products in developed countries;[5]

(*d*) The consultation arrangements should take into account the special financial, trade and development problems and needs of the developing countries, particularly as regards the formulation and implementation of and conformity with standards and related technical requirements;

(*e*) The code should apply to all products.

20. The Trade Negotiations Committee considered that solid progress could be made during 1976 on the elaboration of a substantially agreed draft code of standards.

(d) *Sub-Group on Customs Matters*

21. The Sub-Group on Customs Matters has examined suggestions by participants on principles or elements for any new set of international rules on Customs valuation. It

[5] The draft code of conduct for preventing technical barriers to trade contains certain provisions in this regard.

is also considering problems arising from import documentation requirements, consular formalities and Customs nomenclature. It is of particular interest to developing countries in this connexion that:

(*a*) Any new set of international rules on Customs valuation should take into account the special problems and needs of developing countries, and invoice prices of the same or like products or such prices generally obtained for exports to other third-country markets should be the basis for determining the value of exports of developing countries for Customs valuation purposes;

(*b*) Developing countries should be given sufficient time to accept and comply with the new international rules, and adequate technical assistance would be required by these countries.

22. The Trade Negotiations Committee expected that an agreed basis for negotiations on Customs matters could be developed in 1976.

### 3. *Group on Agriculture*

23. Negotiations on agricultural products other than cereals, meat and dairy products, which are being dealt with in three sub-groups of the Group on Agriculture (see below), have been held up during 1975 owing to differences on the approach to negotiations in this sector among the major trading partners. However, at the meeting of the Group held on 16 Decembre 1975, a compromise was finally reached on a procedural proposal which removed the obstacle and should enable this Group to proceed with its negotiating activities. This procedural proposal provides for a process of bilateral and plurilateral consultations on the basis of notifications regarding tariff and non-tariff barriers affecting agricultural products submitted by each country. Such consultations should succeed in identifying the agricultural products of export interest to developing countries and the measures affecting them.

#### (a) *Sub-Group on Grains*

24. The Sub-Group on Grains has considered the various proposals submitted by the major grain-trading countries. The major topics currently under discussion are the following: an international agreement on grains, an international grain reserve system, price and market stability, the dismantling of trade barriers and security of supplies. Issues of concern to developing countries in this regard include:

(*a*) The expansion of the share of developing countries in the world grain trade, including long-term assurances of export outlets at remunerative prices;

(*b*) Access to supplies at stable prices;

(*c*) Binding commitments regarding food aid and concessional sales;

(*d*) The building-up of reserves of grains and emergency stocks;

(*e*) Two price systems within an international grains agreement;

(*f*) The elimination or restriction of export credits granted by developed countries in support of their exports of grains.

#### (b) *Sub-Group on Meat*

25. The Sub-Group on Meat is considering various issues and proposals relating to the liberalization and expansion, as well as the stabilization, of the international trade in meat. Among the matters of particular concern to developing countries are the following:

(*a*) The expansion of the share of developing countries in world trade in beef and veal;

(*b*) Commitments regarding market access on a volume basis, including preferential treatment with regard to access and/or prices;

(*c*) The elimination of export subsidies and safeguard measures;

(*d*) A "freeze" on the protection accorded to inefficient industries;

(*e*) The liberalization of health and sanitary regulations which *de facto* discriminate against developing countries' exports to developed beef-importing countries.

#### (c) *Sub-Group on Dairy Products*

26. Different views have been expressed in the Sub-Group on Dairy Products regarding the approach to be adopted towards the stabilization and liberalization of the trade in dairy products, and in particular regarding the importance to be given to greater access, closer relationships between internal support prices and world market prices, trade practices, domestic policies which account for these practices, an international agreement embodying minimum and maximum prices, and machinery for permanent surveillance and exchange of information.

27. The developing countries have stressed the need for differentiated and preferential treatment in their favour through the use of support policies and through the liberalization of market access.

28. In December 1975, the Trade Negotiations Committee considered it reasonable to expect that substantial progress would be made in 1976 in the Sub-Groups dealing with grains, meat, dairy products and other agricultural products.

### 4. *Group on Tropical Products*

29. The Group on Tropical Products has established guidelines in conformity with which consultations are taking place among a number of developing and developed participating countries on the basis of "request and offer" procedures with a view to clarifying, examining and discussing the nature and detail of lists of requests for concessions. The Group first agreed that initial offers would be submitted by all participants by the end of December 1975, with a view to reaching an agreement on tropical products in 1976. The deadline for the submission of such offers has, however, been postponed until 1 March 1976.

Among the issues of particular interest to the developing countries in connexion with the consultations are:

(*a*) Priority treatment for tropical products in the trade negotiations, in accordance with the Tokyo Declaration and, accordingly, the need for negotiations in this area to be completed in advance of other issues, so that concessions may be implemented at the earliest possible time;

(*b*) Differential and more favourable treatment for developing countries through, *inter alia*, the removal or relaxation, on a non-reciprocal basis, of tariffs, and the elimination of tariff escalation and non-tariff barriers, including quantitative restrictions affecting tropical products, whether unprocessed, processed or semi-processed;

(*c*) The elimination of internal and fiscal charges and of levies on tropical products, in particular those imposed on their derivatives and processed items, or the refund of such charges to the developing countries concerned;

(*d*) Separate tariff classification for tropical products in the tariff schedules of the developed countries.

30. There was general support in the Trade Negotiations Committee for the proposition that agreement on tropical products should be reached in 1976.

### 5. *Group on Safeguards*

31. The Group on Safeguards has examined the operation and adequacy of the multilateral safeguard system, in particular the application of article XIX of the General Agreement on Tariffs and Trade, including the elements to be built into a possible new or revised system, if the existing system should be found to suffer from inadequacies.

32. Some of the considerations of concern to developing countries in this connexion are set out below:[6]

(*a*) As a general rule, safeguard measures should not be applied to imports of products from developing countries;

(*b*) In very compelling and exceptional circumstances when the situation cannot be corrected by the implementation of adjustment assistance measures within a reasonable period of time, safeguard action might be taken on a temporary basis against imports from developing countries, but such action should be justified by evidence of serious and substantiated injury to domestic industry and should invariably be accompanied by appropriate adjustment assistance measures; provision should be made for the removal of the restrictions as soon as possible;

(*c*) Recourse to safeguards should not have the effect of reducing imports below the volume obtaining before such recourse and the measures should allow for a reasonable further growth of imports;

(*d*) The country applying restrictions should take into account the level of development, the degree of diversification of production and the range of exports of countries to be affected by such restrictions;

(*e*) There should be appropriate compensation for any disruption of exports suffered by the developing exporting countries affected by the restrictions;

(*f*) A revised multilateral safeguard clause should accord with internationally agreed criteria and should include provisions for prior consultation, multilateral review and surveillance, fixed time limits, the linking of the application and duration of safeguard action to appropriate adjustment measures, and the gradual elimination of restrictive measures;

(*g*) The developing countries' need to implement programmes and policies of economic development and to take protective or other measures affecting imports, consistent with the requirements of their development, should be taken into account.

33. The Trade Negotiations Committee, at its December 1975 meeting, considered it reasonable to expect that an agreement on the basic concepts of safeguards that should form the subject of negotiations could be reached in 1976.

### 6. *Group on the Sector Approach*

34. The Group on the Sector Approach has examined the possibilities offered by the co-ordinated reduction or elimination of all barriers to trade in selected sectors as a complementary technique, and has considered the various issues and proposals before it. It is carrying out studies aimed at, *inter alia*, identifying the specific interests and special problems of developing countries in various sectors. In this regard, among the matters of particular interest to the developing countries are the following:

(*a*) The provision of additional benefits for developing countries over and above those flowing from the other areas of the negotiations;

(*b*) Differential treatment in favour of developing countries, particularly as regards the elimination of tariff escalation and the reduction and removal of non-tariff measures, including quantitative restrictions affecting export products of these countries, and the possibilities of improving the GSP;

(*c*) The inclusion in the sectors for study and examination of items of particular interest to developing countries, such as textiles, hides, skins and leather products, wood and wood products, fish and fish products, and electronic products.

35. The Trade Negotiations Committee expected substantial agreement on the role and use of the sector approach during 1976.

## CHAPTER III

## *UNCTAD activities directly or indirectly related to the multilateral trade negotiations*

36. Conference resolution 82 (III), adopted on 20 May 1972, contains certain principles put forward by the

[6] For a detailed discussion of these considerations, see the notes by the UNCTAD secretariat on safeguards and standstill (TD/B/C.2/R.4 and Supp.1). See also the report by the UNCTAD secretariat on the liberalization of non-tariff barriers (TD/B/C.2/R.7), paras. 16 and 17.

developing countries with respect to the multilateral trade negotiations. It also deals with the participation of the developing countries in the negotiations and with the secretariat's preparations for them. The resolution further provides in paragraph 4 that the continuing work of UNCTAD to expand the trade of developing countries should be pursued vigorously and should not be delayed in any way by the negotiations.

37. Under General Assembly resolution 1995 (XIX), the responsibilities of UNCTAD include those for promoting international trade, especially with a view to accelerating economic development, and for formulating principles and policies on international trade and related problems of economic development. Within its mandate, which has been elaborated in various decisions of the Conference, the Trade and Development Board and its Committees, several aspects of the work of UNCTAD are closely related to the subject matter of the multilateral trade negotiations. This is particularly true of its work on trade in commodities, on the generalized system of preferences and on the liberalization of non-tariff barriers.

### A. An integrated programme for commodities

38. In consequence of the changes which have occurred in international economic conditions in the last two or three years, a new and different approach is being adopted to the problems of the commodity trade of developing countries. In pursuance of relevant provisions of the Programme of Action on the Establishment of a New International Economic Order and of subsequent resolutions of the Trade and Development Board and the Committee on Commodities, the work of UNCTAD in the field of commodities is being concentrated on the elaboration of an integrated programme for commodities.[7] The purpose of the proposals made within the framework of the integrated programme is to bring about a lasting improvement in the functioning of commodity markets and a more equitable distribution of the benefits arising from international trade in commodities.

39. The proposals developed in UNCTAD concerning an integrated programme are based on five key elements: the establishment of a series of international stocking arrangements for a wide range of commodities; the creation of a common fund for financing such stocks; systems of multilateral trade commitments regarding individual commodities associated with arrangements for international stocks; schemes for compensatory financing; and measures to promote the processing of raw materials in developing countries.[8]

[7] General Assembly resolution 3202 (S-VI), section I, para. 3(a)(iv), resolution 124 (XIV) of the Trade and Development Board, resolution 15 (VIII) of the Committee on Commodities. For more details on the background to the elaboration of the integrated programme, see the report by the Secretary-General of UNCTAD entitled "An integrated programme for commodities" (TD/B/C.1/166) and the annex to the report by the Secretary-General of UNCTAD entitled "Specific proposals for decision and action by Governments" (TD/B/C.1/193).

[8] For details, see TD/B/C.1/193-198.

40. A fundamental prerequisite of the success of these measures is the improvement of access to markets through the lowering of trade barriers facing exports of primary commodities, especially in their processed form, and possibly through the preferential treatment of such products. The proposals for an integrated programme thus allow for relevant action in other forums, and particularly for measures which may be taken in the context of the multilateral trade negotiations, which the programme will complement and supplement.

41. The issues to which the work on the integrated programme is directed were emphasized again in General Assembly resolution 3362 (S-VII), in which the Assembly renewed and strengthened its mandate to UNCTAD and called, in section I, paragraph 3, of that resolution for decisions at the fourth session of the Conference for international action on market structures in the field of raw materials and commodities of export interest to developing countries, including decisions on an integrated programme.

### B. Generalized system of preferences

42. Developing countries have been concerned about the possible erosion of their advantages under the GSP by MFN tariff reductions in the multilateral trade negotiations. They have sought to maintain and improve the GSP and to secure additional tariff benefits through these negotiations. The Tokyo Declaration recognized the importance of maintaining and improving the GSP.

43. Within the UNCTAD machinery, the Special Committee on Preferences is responsible for reviewing the implementation and functioning of the GSP and it has considered at its recent sessions the possible impact thereon of the multilateral trade negotiations. The Special Committee unanimously adopted resolution 3 (VI) on 31 May 1974 on this subject, and it noted therein the request of the developing countries that preference-giving countries participating in the negotiations should take special measures with a view to maintaining and improving the GSP and securing additional benefits for developing countries. The Committee decided in paragraph 2 of the resolution "to keep under continuous review developments in the multilateral trade negotiations relating to tariffs, in view of their implications for the generalized system of preferences", and in paragraph 3 it requested the Secretary-General of UNCTAD "to transmit to Governments and to the Director-General of GATT, for use by GATT bodies as they consider appropriate, the report of the Special Committee on Preferences on its sixth session and the study by the UNCTAD secretariat entitled 'The generalized system of preferences and the multilateral trade negotiations'."[9]

44. The UNCTAD secretariat is closely following tariff developments in the multilateral trade negotiations, so as to

[9] TD/B/C.5/26. The text is reproduced in *Operation and effects of the generalized system of preferences: selected studies submitted to the sixth session of the Special Committee on Preferences for its second annual review (Geneva, 20-31 May 1974)* (United Nations publication, Sales No. E.75.II.D.9), p. 139.

assist the Special Committee on Preferences in its effort to maintain and improve the GSP. In this context, particular importance is attached to the need for continuing and speedy measures by preference-giving countries to improve their preference schemes substantially and to implement the system fully, without tying these measures to the progress of the multilateral trade negotiations.

### C. Liberalization of non-tariff barriers

45. The UNCTAD machinery has had the question of non-tariff barriers under review almost from the beginning. The Secretary-General of UNCTAD presented a programme for the liberalization of non-tariff barriers at the second session of the Conference in 1968, and developing countries also submitted their proposals at that time. No action was taken. The UNCTAD Committee on Manufactures continued to deal with non-tariff barriers between 1968 and 1975, again with little concrete result in the shape of actual trade liberalization, though some useful work was done in analysing data and identifying difficulties and possible solutions.

46. At its third session, the Conference adopted without dissent on 19 May 1972 resolution 76 (III), which defined the tasks of the Committee on Manufactures in the field of non-tariff barriers, in the context of the multilateral trade negotiations. It invited the Committee, in paragraph 1 of the resolution, "to accelerate its consideration of non-tariff barriers which may adversely affect developing countries' exports and, in pursuing these efforts, to promote consultation on non-tariff barriers affecting present and potential exports of products of interest to developing countries" and, in paragraph 3, to propose measures for the liberalization or elimination of such barriers.

47. Accordingly, the UNCTAD secretariat submitted studies to the Committee on Manufactures at its sixth and seventh sessions on various aspects of non-tariff barriers, including a suggested programme of measures for their liberalization, drawing on work done in other bodies, including GATT.

48. During the first part of the sixth session of the Committee on Manufactures, developing countries members of the Group of 77 submitted various suggestions with respect to State trading, government procurement, packaging, labelling and marking requirements, standards as technical barriers to trade, Customs valuation and procedures, and other matters.[10] They also submitted draft resolutions containing concrete proposals on adjustment assistance measures, safeguards and standstill, international trade in textiles, and export incentives and countervailing duties.[11] While developing countries had intended that their suggestions and draft resolutions should initiate, and provide a basis for, negotiations within the Committee, in the context of Conference resolution 76 (III), the developed market-economy countries in the Committee stated that they were not prepared to engage in any pre-negotiations or negotiations on subjects that were to be dealt with in the multilateral trade negotiations.[12] The Committee on Manufactures also had these proposals before it at its seventh session for further consideration, but no substantial advance on them was achieved at that session.

49. Very little, if any, progress has been made towards achieving the objectives of Conference resolution 76 (III). Concrete action to reduce or eliminate non-tariff barriers affecting developing countries is likely to be further delayed for a considerable period of time, especially if such action were to be included in the final "package" which is expected to emerge from the multilateral trade negotiations. Consideration should therefore be given to the possibility of taking advance action on non-tariff barriers in a manner favouring developing countries.

## CHAPTER IV

## *The role of UNCTAD in the multilateral trade negotiations*

### A. Participation of UNCTAD in the Trade Negotiations Committee and its groups

50. The role of UNCTAD in the multilateral trade negotiations is set out in various decisions within UNCTAD, particularly Conference resolution 82 (III) and General Assembly resolution 3310 (XXIX),[13] which recognize the responsibility of UNCTAD for assisting the developing countries in preparing for and participating fully and effectively in the various stages of the negotiations.

51. The Trade and Development Board and its subsidiary bodies concerned, i.e. the Committee on Commodities, the Committee on Manufactures, and the Special Committee on Preferences, have the responsibility of following the developments in the multilateral trade negotiations and have given active consideration to the issues arising in these negotiations that are of particular concern to the developing countries. It is part of the function of UNCTAD to promote consultations and exchanges of views and, as appropriate, to make proposals of negotiable value concerning these issues.

52. In pursuance of his mandate, the Secretary-General of UNCTAD has provided relevant documentation to the various UNCTAD bodies and has also given support to the Co-ordinating Committee of the Group of 77 on the Multilateral Trade Negotiations in connexion with the deliberations on such subjects as tariffs, non-tariff barriers, safeguards, agriculture, tropical products and sectoral

[10] *Official Records of the Trade and Development Board, Thirteenth Session, Supplement No. 5* (TD/B/466 and Corr.1), paras. 155-161.

[11] *Ibid.*, annex II.

[12] *Ibid.*, para. 162.

[13] See also Conference resolution 76 (III), resolution 116 (XIV) of the Trade and Development Board, resolution 3 (VI) of the Special Committee on Preferences, and resolution 12 (VIII) of the Committee on Commodities.

analyses. He has also had consultations with spokesmen of the groups of developing countries and contacts with individual representatives of developing countries at various levels on various matters arising in the negotiations.

53. At the close of the Tokyo Ministerial Meeting in September 1973, it was decided that the Secretary-General of UNCTAD should be invited to attend meetings of the Trade Negotiations Committee, as appropriate. The importance of his presence at such meetings has been stressed in resolutions of various UNCTAD bodies and by the General Assembly. During 1975, the Secretary-General of UNCTAD was invited to attend the meetings of the Trade Negotiations Committee and those of its groups and sub-groups. Such invitations were issued on the basis of an *ad hoc* decision taken by the body concerned at the beginning of each session. Documents pertaining to each meeting were made available to the Secretary-General or his representative after the receipt of these invitations.

### B. UNDP/UNCTAD technical assistance activities

54. The failure of the Kennedy Round to secure substantial trade benefits for developing countries was at the time attributed by developed countries not to their reluctance to act, but to the developing countries' lack of negotiating experience and expertise, and to the lack of the necessary tools and data. When the prospects of another round of trade negotiations were discussed in 1972, it was proposed, therefore, that not only should all developing countries be allowed to participate, but that they should be provided with technical assistance, so as to ensure their effective and fruitful participation in the negotiations.

55. In pursuance of Conference resolution 82 (III), UNCTAD, with the financial support of UNDP, is providing technical assistance, in various forms and at various levels, to developing countries participating in the various stages of the negotiations. In the context of an interregional project, a number of experts have compiled basic data concerning trade and trade barriers, have undertaken studies of specific problems arising in the negotiations and have provided advisory services. Relying on the computer facilities available to UNCTAD, the project has been able to satisfy the needs of over 50 developing countries in regard to basic statistical data relating to the flow and pattern of trade and factual data relating to tariff and non-tariff barriers to their trade. Consultations have been continously held with the negotiating delegations of developing countries. A number of confidential briefs on the principal issues of the negotiations, with reference to specific trade interests involved, have been made available to interested delegations. Through the project, assistance has also been given in the organization and conduct of a number of workshops and seminars which have taken place at Bangkok, Addis Ababa, Guatemala, Manila and Hong Kong, in response to the wishes of Governments in the various regions.

56. In addition, the regional commissions of the United Nations have, in collaboration with UNCTAD and with the assistance of the interregional project, each set up a regional project designed to provide technical assistance to the competent authorities or departments in the capitals of the countries in their respective regions. The services rendered include data processing and analysis, special studies of regional or local problems, advisory missions and training courses and seminars. The regional project for Latin America began its operations in 1972. The regional project for Asia and the Pacific has been in existence since the autumn of 1974, upon the introduction in early 1974 of certain facilities designed to meet the particular requests of the five countries members of the Association of South-East Asian Nations. Similar projects for the African and Western Asian regions are still at an early stage of organization; they are expected to become fully operative in the near future.

57. It should be noted that, parallel to these facilities provided by UNCTAD and the regional commissions with financial support from UNDP, the secretariat of GATT, which has been given the responsibility of servicing the negotiations, has itself undertaken to set up a "special assistance unit", whose purpose is also to assist the developing countries in their participation in the negotiations.

## CHAPTER V

## *The reform of the General Agreement on Tariffs and Trade and related institutional questions*

58. In the course of the multilateral trade negotiations, questions relating to the principles and rules for the conduct of international trade will arise. The Tokyo Declaration reaffirmed support for the principles, rules and disciplines provided for under the General Agreement on Tariffs and Trade (though it was noted that this reaffirmation did not necessarily represent the views of countries not then parties to the Agreement). It went on to state that

> Consideration shall be given to improvements in the international framework for the conduct of world trade which might be desirable in the light of progress in the negotiations and, in this endeavour, care shall be taken to ensure that any measures introduced as a result are consistent with the over-all objectives and principles of the trade negotiations and particularly of trade liberalization.[14]

59. In the course of the multilateral trade negotiations of proposed amendments. Developing countries have requested in this connexion that, for the purpose of the effective implementation of paragraphs 5 and 9 of the Tokyo Declaration, new provisions or articles to govern trade relations between developed and developing countries should be drawn up and that part IV of the Agreement should be strengthened. They have also urged the establishment of a new group by the Trade Negotiations Committee to deal with this matter. This proposal is likely to be taken up by the Committee at its next meeting. Hence it is not clear at this time how far and how comprehensively the reform of the Agreement will be carried out as part of the negotiations and how far the reform would accommodate the request of the developing countries that the present rules, which are based on the equality of rights and

[14] GATT, *Basic Instruments... (op. cit.)*, p. 22, para. 9.

*obligations of the Contracting Parties, should not apply to* them.

60. Since the developed countries insist on the MFN application of different GATT rules and codes and have not categorically recognized the need for special treatment and rules for the developing countries, there is not unnaturally an increasing concern and even apprehension on the part of the developing countries that, by the time the multilateral trade negotiations are concluded, they might find themselves in the difficult position of being obliged to accept rules and codes of conduct which, far from providing a preferential régime in their favour, could even impair significantly their existing flexibility and would render special derogations in their favour far more rigorous and difficult to negotiate.

61. Attention should be drawn in this connexion to a draft resolution dated 21 November 1975, submitted on behalf of the countries members of the Group of 77 in the Second Committee of the General Assembly, for the establishment within the framework of UNCTAD of a special intergovernmental committee on international trade,

> charged with the preparation, in the light of negotiations under way or to be undertaken within or outside the United Nations, of a draft general agreement on trade, to be submitted to the General Assembly not later than at its thirty-second session, containing norms that would regulate the commercial relations between developed countries and developing countries, with the aim of promoting a larger and more equitable participation of developing countries in world trade through, *inter alia*, the application of preferential treatment, bearing in mind the need to reduce the economic gap between developed countries and developing countries;

The draft provided further that:

> [the General Assembly should] consider, at its thirty-second session, in the light of the results of the work of the special committee, the convening of a plenipotentiary conference for the approval of a general agreement on trade between developed and developing countries;

and that:

> the Trade and Development Board [should] give priority to the work of the special committee and, in consultation with the interested Governments, proceed with the establishment of the calendar and the organization of work of the special committee;
>
> the Secretary-General of UNCTAD [should] present to the General Assembly at its thirty-first session a progress report on the work undertaken by the special committee.[15]

62. On the recommendation of the Second Committee, the Assembly decided, at its 2441st meeting, that consideration of the draft resolution containing the proposal would be deferred to its thirty-first session, without prejudice to the fact that the question might be considered by the Conference at its fourth session.

63. The consideration of new principles and rules for the conduct of international trade thus raises basic questions of both institutional and substantive character. It bears, on the one hand, on the kind of rules which should properly be based upon the New International Economic Order set out in General Assembly resolution 3202 (S-VI) and, on the other, on the structure and responsibilities of the United Nations system in the field of development and international economic co-operation, including especially those of UNCTAD.

64. The provisional agenda for the fourth session of the Conference contains an item (item 16) entitled "Institutional issues: recommendations on the future role of UNCTAD, and decisions on future institutional arrangements within UNCTAD".[16] The Conference will, therefore, have the opportunity of taking the above-mentioned developments into consideration and making suitable recommendations and decisions. In particular, the adequacy and even the consistency and coherence of the present GATT rules and the revisions therein (which might emerge from the multilateral trade negotiations), with the objectives, rules and measures set out in General Assembly resolutions 3201 (S-VI) and 3362 (S-VII), should be a legitimate matter for review and guidance on the part of the Conference, as indeed would be the institutional implications for UNCTAD and the entire United Nations system.

## CHAPTER VI

## *Concluding observations*

65. Since the negotiations were launched with the Tokyo Declaration, far-reaching developments have occurred in the world economy which have transformed the perspectives and prospects of the multilateral trade negotiations themselves. The energy crisis, the depressed state of the world economy characterized by recession and unemployment in conjunction with high rates of inflation, the difficult international monetary situation, the world-wide food shortages and the emphasis on access to supplies in contrast to the stress on access to markets – all these have not only delayed the start of the negotiations but have also slowed down their pace. Strong pressures for the adoption of protectionist measures have built up in several industrial countries and significant efforts are needed to restrain them and to consolidate the progress in trade liberalization which had been achieved in earlier years. Deep-seated divergences in commercial and agricultural policies persist among the major industrialized countries. It is hardly surprising in these circumstances that no new measures to liberalize trade should have been taken within the multilateral trade negotiations so far. The Trade Negotiations Committee has now given itself two more years to complete the negotiations, extending them to the closing years of the Second United Nations Development Decade. In the meantime, international action in other forums, particularly UNCTAD, has been held up on the plea that many of the solutions for the developing countries' problems will be secured in the multilateral trade negotiations. This unsatisfactory state of affairs, in particular in view of significant shortcomings in the negotiating mandates of the developed countries which do not permit them to deal adequately with some of the critical problems of the developing countries, has led to the

[15] A/AC.2/L.1472.

[16] Attention is drawn to the report by the Secretary-General of UNCTAD in connexion with this item (TD/194), reproduced below.

expression of dissatisfaction and concern by developing countries.

66. As regards the major issues in the negotiations of primary concern to developing countries, progress is being made on tropical products, but it is evidently too early to draw any conclusions regarding the nature and magnitude of the concessions which the developing countries will be offered in this sector. In respect of other major issues – differentiated and more favourable treatment in respect of their trade, non-reciprocity, special procedures and modalities in the negotiations, maintenance and improvement of the GSP, and advance implementation of measures in their favour – very little progress has been achieved and virtually no concrete commitments have been made so far by the developed countries in implementation of the Tokyo Declaration.

67. To date, it does not appear that the developed countries attach a sufficiently high priority to providing special benefits for the developing countries within the framework of the multilateral trade negotiations. On the contrary, they attribute primary importance and high priority to reciprocity among themselves (at every stage) and, in some instances, also between developed and developing countries. One questionable assumption on the part of some developed countries seems to be that negotiations on issues which are of priority interest to the developing countries will automatically fall into line once the major issues have been settled and general solutions have been agreed. In any case, it is assumed by them that the treatment of the problems of developing countries can be dealt with "in parallel" with the other more important issues. This assumption does not take into account the urgency with which developing countries view their trade problems.

68. Furthermore, there has been an increasing trend towards the bilateralization of the consultations and negotiations. This is not to the over-all advantage of the developing countries. Bilateral negotiations among the developed countries will leave the developing countries out of the real negotiations on issues of critical importance to them, while bilateral procedures for negotiations between developed and developing countries will bring the developing countries back into their usual position of disadvantage in reciprocal bargaining for concessions. These procedures, moreover, are not in the spirit of the Tokyo Declaration, and it is essential that agreement on measures to offset the trend towards bilateral procedures should be reached early in the negotiations.

69. As will have been seen from chapter II of the present report, a number of specific and concrete proposals and suggestions have been put forward for differential treatment of the trade of developing countries. These relate to tariffs, quantitative restrictions, standards, safeguards, subsidies and countervailing duties, the sector approach, and Customs matters. In spite of their concreteness and specificity, virtually no action has so far been taken on most of them. It is both important and urgent that early commitments should be reached on those suggestions.

70. One aspect of differential treatment for developing countries would be the advance implementation of some of the concessions in favour of those countries. In particular, concessions should be made with regard to tariffs, liberalization of quotas and quantitative restrictions, and action should be taken with regard to tropical products, as soon as the negotiations in these sectors are concluded, without awaiting the conclusion of the multilateral trade negotiations as a whole.

71. Under favourable conditions, the multilateral trade negotiations could bring substantial trade advantages to the developing countries. These countries should, therefore, make every effort to secure those advantages. However, it would be unrealistic to overlook the limitations of the negotiations. Several critical areas of trade and development of the developing countries would remain virtually outside the scope of the negotiations. They cannot and should not be expected to provide long-term solutions in these areas. It is imperative, therefore, that parallel urgent action be taken in other international institutions, in particular in UNCTAD, in these critical areas.

72. The multilateral trade negotiations and the reforms in the GATT articles likely to emerge therefrom would have important consequences for UNCTAD and the entire United Nations system, from both the substantive and institutional points of view, in the area of trade and development. The institutional aspect of the subject would therefore deserve careful examination by the Conference under item 16 of the agenda for the fourth session.

# DOCUMENT TD/188*

## International financial co-operation for development

### *Report by the UNCTAD secretariat*

[*Original: English*]
[*29 December 1975*]

CONTENTS



CHAPTER I

## *The setting*

1. The events of 1974 and 1975 have provided a vivid illustration of the vulnerability of the process of development in developing countries to external events and have directed renewed attention to the role that must be played by international financial and monetary policies in sustaining the development process.

2. The year 1974 was characterized by a dramatic deterioration in the external financial position of developing countries, a deterioration that continued, although at a slower pace, in 1975. The current-account deficit of the non-oil-exporting developing countries taken together trebled, from around $11 billion in 1972-1973 to about 34 billion in 1974, and in 1975 it is estimated at about $45 billion. The deterioration in 1974 reflected primarily a worsening of the terms of trade of developing countries as a result of higher import prices for oil, food, fertilizer and manufactures; in 1975, the deterioration was due mainly to higher prices of imported manufactures and a decline in export prices induced by recession in the developed market-economy countries.

3. The situation in 1974-1975 must, of course, be seen against the background of that in 1972-1973. During this period, commodity prices and the volume of manufactured exports from developing countries rose steeply, allowing those countries to enlarge significantly the volume of their imports and to step up their rates of growth. However, the downswing of 1974-1975 cannot be considered as the symmetrical counterpart of the upswing of 1972-1973. For one thing, the improvement during the latter period in the terms of trade of commodities (other than petroleum) in relation to manufactures was not enough to make up for the decline in this variable over the preceding two decades. For another thing, the sharp synchronized upswing towards full employment in the developed market-economy countries, which accounted for much of the rise in commodity prices, was not as steep as the downswing which followed. Moreover, the upswing of 1972-1973 had an uneven impact; the terms of trade of countries with annual *per capita* incomes of $250 or less improved only very slightly, and production of essential foodstuffs declined sharply in many of these countries (and in other developing countries), as a result of widespread drought.

4. The years 1972 and 1973 did, however, see a substantial excess of net long-term capital inflows over the aggregate current deficits of developing countries. This

* Incorporating documents TD/188/Corr.1 and TD/188/Add.1.

allowed for a rapid build-up of official external reserves, a build-up that came to an abrupt end in 1974. All in all, changes in the rate of reserve accumulation and acceleration of short-term borrowing, two operations that are not sustainable in the longer run, accounted for more than half of the additional financing required by developing countries in 1974. The remainder was provided by additional long-term capital flows. To a considerable extent, then, the developing countries managed to finance their exceptionally large deficit in 1974 by drawing on "fat" in their external positions, but as 1975 progressed, financing difficulties increased and both the external financial situation and the development programmes of a number of developing countries were jeopardized.

5. It is estimated that, if the target rate of growth of GDP which was set out in the International Development Strategy for the Second United Nations Development Decade[1] is to be achieved, the annual rate of growth of GDP of non-oil-exporting developing countries would have to be 6.6 per cent for the period 1974-1980. Projections of import requirements associated with that growth rate of GDP and of export prospects for the remainder of the decade indicate that the annual deficit on goods and non-factor services of non-oil-exporting developing countries would increase from about $35 billion in 1975 to over $77 billion in 1980.[2] Moreover, when interest payments and profit remittances are taken into account, the current account deficit of these countries in 1980 may exceed $110 billion at 1980 prices, or $84 billion at 1975 prices.[3]

6. It should be noted that projections of the current account deficit are based on the assumption that the 0.7 per cent volume target for official development assistance would be attained by the end of the decade, thus allowing for an increasing part of the gap to be financed on concessional terms. Nevertheless, the ratio of debt-service payments and profit remittances to export earnings is projected to increase from 15 per cent in 1974 to almost 40 per cent in 1980.

7. To be sure, current policies with regard to the provision of official development assistance do not indicate that assistance flows expressed as a ratio to the GNP of DAC member countries would increase from the 1974 level of 0.33 per cent. The question therefore arises how these prospects for official development assistance would affect the outlook for developing countries. For a large number of developing countries, failure to move towards the 0.7 per cent target would lead to severe constraints on imports and development expenditures, which in turn would result in substantially lower growth rates of income than those experienced in the past. For example, projections indicate that under these conditions the *per capita* income of the most seriously affected developing countries may not be appreciably higher in 1980 than in 1973, with many of these countries even experiencing declines in *per capita* income. For some other developing countries, it might be possible to maintain minimal growth rates by financing the increased payments deficit with loans from private capital markets. It is doubtful, however, whether recourse to this source of finance would be feasible on a large scale. It is estimated, for example, that if flows of private capital were to make good shortfalls in official flows, private direct investment and gross borrowings from capital markets would have to increase at the rate of 35 per cent per annum, reaching an annual level of $110 billion in 1980. Moreover, in this case the ratio of debt-service payments and profit remittances to export earnings would increase from 15 per cent in 1975 to about 45 per cent in 1980.

8. These prospects, and the precarious position in which the developing countries now find themselves, underscore a number of weaknesses in the international system – weaknesses which have existed all along and which recent events have brought into sharp focus. In the field of money and finance, these weaknesses manifest themselves in three distinct, though highly interdependent, areas. First, and most evident, is the failure of the international system to provide adequate balance-of-payments financing in the current situation. Closely allied with this weakness is the absence of comprehensive policies with regard to the debt problems of developing countries. Finally, underlying both these difficulties is the continued poor performance of the major donor countries in providing aid and the consequent failure of official development assistance to reach the levels required to attain the goals of the Second United Nations Development Decade.

9. Clearly, substantial improvements in international policies will be needed in all three areas if the current external difficulties of developing countries are to be overcome and the development process sustained for the remainder of the decade. This will require significant departures from established orthodoxies and accepted maxims regarding balance-of-payments financing, development aid and the treatment of contractual obligations. Specifically, it is necessary to recognize that in large measure the distinctions between these categories lose their usefulness in an unusual situation such as the current one, in which, for example, long-term assistance and policies regarding debt service can properly be viewed as appropriate means for dealing with balance-of-payments difficulties. The major shortcomings in existing policies and practices regarding each of the areas and possible remedial measures are summarized in the following chapters.[4]

[1] General Assembly resolution 2626 (XXV) of 24 October 1970.

[2] Exports of goods and services in real terms are projected to increase at an annual rate of 6.3 per cent for the remainder of the decade. This estimate is based on the assumption that the GNP of OECD countries would grow at an annual rate of 4.8 per cent during the same period. Projections of import requirements imply an import elasticity of slightly less than 1.

[3] Payments on account of amortization are estimated to reach the level of $28 billion in 1980. Thus, the total volume of gross flows required to finance the current account deficit and amortization payments in 1980 would almost reach $140 billion.

[4] A detailed analysis of the issues involved is to be found in the document on international financial co-operation for development (TD/188/Supp.1), reproduced below.

## CHAPTER II

## *Balance-of-payments finance*

10. As is widely recognized, developing countries are subject to a relatively high degree of fluctuation in their export revenues, and hence in their import capacity, which serves as a disruptive influence on development.

11. The response of the international community to the problem has been to seek mechanisms designed to provide developing countries with finance to cover export shortfalls. It has become increasingly clear, however, that an equitable and effective solution requires a reorganization of commodity trade, since the major underlying cause of the instability relates to deficiencies in that area.

12. The report by the UNCTAD secretariat relating to the integrated programme for commodities,[5] contains proposals for measures that, *inter alia,* would remove the major causes of instability in the export earnings of developing countries. Viewed in this context, the accomodation of capital flows can play a useful, even if supplementary, role, namely that of financing those export shortfalls that cannot be wholly eradicated through structural changes in the trading system. The proposals contained in the following section should be seen in this framework.

### A. Existing policies and practices

13. International facilities for balance-of-payments financing consist in the first instance of tranche drawings in IMF. Such drawings, which are open to all Fund members, are limited by quota and are subject, except for drawings in the gold tranche, to conditionality that increases in stringency with the size of each member's drawings. This facility in the Fund has not been adequate to meet the special needs of developing countries. In recognition of this, certain measures have been taken to improve the access of developing countries to balance-of-payments financing. The most important innovation in this area is the IMF compensatory financing facility (CFF). While this facility has made a useful contribution to meeting the balance-of-payments needs of developing countries, it contains a number of features that have limited its role.[6]

14. In 1974, IMF established an extended fund facility (EFF), the purpose of which is to provide medium-term assistance in special circumstances of balance-of-payments difficulty, such as when the economy of a country is suffering from serious payments imbalance as a result of structural maladjustment which prevents the pursuit of an active development policy. Whereas the usual duration of a Fund stand-by arrangement does not exceed 12 months, the EFF can provide assurance of Fund support for up to three years, and its drawings can remain outstanding for longer periods than those permitted by other Fund facilities. Drawings under the facility are, however, limited by quota and involve a high degree of policy conditionality. Indeed, the question arises whether the rigour of these conditions might not restrict excessively the use of the facility.

15. One important development in the international monetary system which has a bearing on the issue reviewed here, has been the establishment of special drawing rights in the Fund. By allowing internationally acceptable reserve assets to be created without cost, this mechanism enables countries to augment their reserves (to the extent that they receive allocations of SDRs) without running a surplus in their external payments. SDRs are, potentially at least, of particular benefit to developing countries, since these countries generally have inadequate levels of reserves and encounter difficulty in securing an adequate inflow of real resources. Moreover, whereas the share of developing countries in the total reserves of IMF members in 1970 (the first year of allocations of SDRs) was 19 per cent, their share in allocations of SDRs is around 25 per cent. However, the bulk of the benefit of the creation of SDRs has accrued to the developed countries. The proposal to establish a link between SDRs and development finance, which would correct this anomaly, has not been implemented.

16. SDRs were allocated in 1970, 1971 and 1972. In subsequent years, it did not prove possible to reach agreement on the further creation of SDRs, largely because other less controllable components of international liquidity grew rapidly. Thus, during the period 1969-1973, accretions to foreign exchange holdings accounted for $88.7 billion of the increase in international liquidity, and allocations of SDRs for $10.6 billion. The recent decision of the Interim Committee of IMF[7] to abolish the official price of gold and to permit transactions among central banks at market-related prices is likely to result in an upward revaluation of gold holdings and, perhaps, in the establishment of a new official price *de facto,* if not *de jure,* despite the fact that the members of the Group of Ten[8] have agreed to limit their net purchases from the market. Although some of the windfall profits from the increase in the gold price accruing to developed market-economy countries are to be channelled to developing countries through the Trust Fund, the over-all effect will nevertheless be to redistribute world reserves in favour of developed countries. For example, if official gold reserves are upvalued threefold, the reserves of IMF members will rise by $84 billion. Of this, nearly $62 billion (i.e. 73 per cent) will accrue to the ten largest developed countries members of IMF, and $4 billion (5 per cent) to the non-oil exporting developing countries. The reserves of the latter group, expressed as a percentage of those of the former, would then fall from 27.3 per cent to 19.7 per cent.[9]

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[5] Document TD/184, reproduced above.

[6] Some of the limitations are spelled out in paragraphs 22-27 below.

[7] Interim Committee of the Board of Governors of IMF on the International Monetary System, established on 3 October 1974.

[8] Belgium, Canada, France, the Federal Republic of Germany, Italy, Japan, the Netherlands, Sweden, the United Kingdom and the United States of America.

[9] See also chapter III of the report by the UNCTAD secretariat entitled "International monetary issues: problems of reform" (TD/189), below.

17. Existing facilities for the financing of payments deficits and allocations of SDRs have not sufficed to prevent substantial swings in the foreign exchange availabilities of many developing countries. For many countries, this has been an important factor restraining the growth rate from reaching, on average, the level warranted by considerations of productivity, thrift and the medium to long-term trend in foreign exchange earnings.

18. The failure of balance-of-payments support facilities to give sufficient support to the long-term development of developing countries is in part the result of the notion that long-term lending to developing countries should be devoted to financing specific projects and should be allocated independently of the short-term balance-of-payments position of the recipient. Although some individual donor countries have made a substantial proportion of their disbursements to certain developing countries in the form of programme loans, the operations of international institutions are such that freely usable loans are generally given only on a short or medium-term basis and to meet an immediate balance-of-payments need. This notion is in keeping with the orthodox view that the balance-of-payments adjustment process differs little between developed and developing countries, from which it is concluded that a clear-cut distinction can be drawn between the development process and the balance-of-payments adjustment process.

19. These differences between developed and developing countries as regards the working of the adjustment process are not given recognition in the Articles of Agreement of IMF, and arrangements for payments financing have failed to recognize adequately that, in many instances, a payments imbalance may be the counterpart not of excess demand (the removal of which generally requires a reduction in spending), nor of shifts in patterns of demand or productivity growth requiring reallocation of resources at the margin, but of basic rigidities whose resolution requires continued or accelerated growth and diversification of the economy of the developing country. Although countries faced with such deficits have access to medium-term balance-of-payments financing from IMF, they have generally had little or no assurance of increased long-term capital inflow to assist their adjustment, and have frequently had little choice but to correct their deficits at the cost of high unemployment and disruption of the development process. Most noticeable of all has been the lack of access to long-term funds in freely usable form, which are essential when the import requirements of continued expansion take the form of raw material and intermediate inputs, rather than of capital goods.

### B. Consideration to the taken into account in devising international measures

20. In devising policies to deal with fluctuations in export earnings, it is necessary to distinguish between shortfalls caused by a country's own policies and those resulting from factors beyond its control. It is equally necessary, however, to distinguish conceptually between various types of the latter. These can, in principle, be divided into three categories:

(*a*) Temporary, self-reversing shortfalls below the trend in export earnings warranted by full (or near-full) capacity utilization in the world economy;

(*b*) Shortfalls[10] induced by an abnormally large slack in capacity utilization in the world economy;

(*c*) Persistent shortfalls (i.e. depressed trend) occurring under conditions of full (or near-full) capacity utilization in the world economy.

21. A point of basic importance is that demand-induced shortfalls of type (*a*) are counterbalanced by "excesses"; downturns and upturns in demand aroung the quasi-full employment level of output will tend to be symmetrical. However, abnormally large downswings in capacity utilization, and hence the shortfalls resulting from them, are not counter-balanced by comparable upswings. This is because, whereas there is no "floor" under capacity utilization, there is a ceiling above it; consequently, in the absence of systematic stockbuilding at times of reduced demand, commodity prices will tend, on average, to be below the levels warranted by full employment in developed market-economy countries.[11]

22. The appropriate response to each type of shortfall is necessarily different. Types (*a*) and (*b*) are similar, in that they call for financing and not "real" adjustment. Shortfalls of type (*c*), on the other hand, require the adjustment of patterns of real economic activity; financing is appropriate in such a case as a means of achieving adjustment and of providing adequate breathing-space in the meantime.

23. An equally sharp distinction needs to be drawn between the nature of the financing that is appropriate for shortfalls of type (*a*) and type (*b*). A shortfall of type (*a*) requires, in essence, medium-term credits (or the use of reserves) pending the recovery of export earnings, at which time the credit can be repaid (or reserves reconstituted). A type (*b*), on the other hand, is by definition the result of maladjustment in the major developed market-economy countries, which imposes a burden on the developing countries. To require developing countries to finance this type of shortfall in the same way as they would a shortfall of type (*a*) is to imply that the burden should be borne by them, in the form of indebtedness (or run-down of reserves). Such burdens are not unduly heavy when they accompany shortfalls of type (*a*), since they can be reserved in the course of the upturn. In the case of type (*b*) shortfalls, on the other hand, the loss cannot be recouped, for the reason that downturns are not matched by upturns. The optimal response to a shortfall of type (*b*) thus lies in the provision of grants (or, as a second-best measure, loans on very soft terms), pending adjustment in the developed market-economy countries.

[10] Measured as the difference between export earnings warranted by full (or near-full) capacity utilization in the world economy and actual export earnings.

[11] If capacity for the production of primary commodities were to be exhausted before full employment in the economies of the industrialized countries was reached, the opposite would be true; this, however, is not the general case.

24. Although IMF does not confine CFF drawings to type (*a*) shortfalls, the norm used to measure shortfalls and the operative provisions of the facility are geared essentially to cover temporary fluctuations. Consequently, much of an export revenue decline of type (*b*) is likely to be excluded from the calculation of the size of the shortfall; moreover, the financing that is provided with respect to such a decline is on a medium-term, and not a long-term, basis, such as is more suitable in the case of a non-recoverable loss. The need thus arises to equip IMF to provide additional compensatory finance, and on a longer-term basis than is normal under the current policies and practices of the Fund, to cover the losses suffered by developing countries as a result of abnormally severe or prolonged recession in foreign markets.

25. It is altogether appropriate for IMF to engage in such financing, since bilateral aid programmes and lending by development finance institutions are not, as a general rule, intended to meet balance-of-payments financing needs. The case for IMF undertaking compensatory lending suitable for type (*b*) shortfalls does not rest solely on the inability of other mechanisms to do so, nor on the fact that IMF is already engaged in compensatory financing. The important point is that such an activity is in keeping with the aims of IMF. Indeed, it may be argued that failure, or inability, on the part of IMF to engage in compensatory financing appropriate to shortfalls of type (*b*) would constitute a serious shortcoming in the structure of international monetary co-operation.

26. Nevertheless, it must be recognized that for IMF to lend for the purpose of covering a deficit that does not require adjustment by the country in deficit would constitute a significant departure from its past policies and practices, in that support of developing countries in deficit as a result of recession abroad would not serve to correct their payments maladjustment, since this is the result of policies pursued by other countries. But it is precisely the absence of an effective and satisfactory mechanism to correct the asymmetry between deficit and surplus countries that accounts for the need for the finance, and until such a mechanism is incorporated in the monetary system, and in policies and practices of IMF, it would be difficult to object to a course of action designed to mitigate the adverse effects of the asymmetry, which are likely to prove acutely disruptive of international prosperity, on the grounds that it would be an innovation.

27. While shortfalls of types (*a*) and (*b*) differ fundamentally, the question arises whether, at the operational level, it might not be advantageous to consider them together. For example, the compensatory financing facility could be altered so as to cover also shortfalls of type (*b*) by providing for export earning losses caused by abnormal recession in the world economy to be compensated by drawings with long maturities and low interest charges, pending full recovery in the developed market-economy countries. Another approach would be to treat the financing of type (*b*) shortfalls as a separate activity to be carried out on an *ad hoc* basis (like the oil facility) to provide compensation to developing countries when the rate of capacity utilization in developed countries fell below a critical level.

28. Since, in either case, the Fund would be lending on a long-term basis, a problem might arise with respect to the Fund's own liquidity. In that case, it would be necessary to augment the Fund's resources either through borrowing or through an increase in quotas, as has been done in the past to meet a growth in demand for Fund credit.

29. In December 1975, the IMF compensatory financing facility underwent a revision in a number of respects,[12] of which the following may be singled out:

(*a*) The formula for calculating shortfalls was improved to enhance the weight given to the trend in export earnings; in the short term, estimated shortfalls will be larger under the new formula than under the old;

(*b*) The ceilings on drawings were raised: the annual limit on drawings was doubled from 25 per cent of quota to 50 per cent and the limit for the total drawings outstanding increased from 50 per cent to 75 per cent;

(*c*) The rules regarding the timing of drawings were relaxed considerably, with the result that countries experiencing shortfalls will be able to make more timely use of the facility and will have 18 months (instead of 6 months) in which to reclassify drawings.

Nevertheless, the CFF continues to have shortcomings, which need to be eliminated if it is to function adequately, even in the face of temporary declines in export earnings.[13] These shortcomings are:

(*a*) Shortfalls in export earnings continue to be calculated in nominal terms and take no account of changes in import prices;

(*b*) Earnings from services are excluded;

(*c*) Access to the facility is still limited by quota, whereas shortfalls are not; the maximum drawing under the facility is "normally" 50 per cent of quota and drawings in any 12-month period are limited to 25 per cent of quota (except for export shortfalls resulting from disasters or major calamities); indeed, the recent rise in the quota limits serves merely to restore their ratio to the trade (and the deficits) of the developing countries, which had fallen markedly over the past decade;

(*d*) The repayment schedule, fixed at from 3 to 5 years, is not tied to the recovery of earnings; the criteria for drawings and repayments are thus dissimilar;

(*e*) Drawings can only take place when the shortfall has been registered, even though in some cases (for example, that of crop failure) an export shortfall can be accurately foreseen; moreover, compensatory drawings must take place within six months of the occurrence fo the shortfall, whereas for many countries statistics are not available until much later;

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[12] The text of the decision of the Executive Board of IMF on the liberalization of the facility appears in IMF, *Annual Report 1976* (Washington, D.C.), appendix II, sect. E.

[13] For a discussion of the coverage of the facility and other related issues, see document TD/184 (reproduced above), paras. 42-45.

(*f*) Drawings are not available under the facility to cover increases in import volume brought about by factors beyond the control of the country which temporarily cause a large increase in import demand. Thus, for example, where a crop failure reduces exports, the country can draw on the facility to cover the loss, but where it increases imports no compensation is allowed.

30. Improved compensatory financing should, however, be accompanied by expanded access to Fund resources generally. The oil facility should be continued beyond its current term; the reasons which justified the establishment of the facility in the first place still apply, in view of the position in which developing countries, if not other countries, still find themselves in dealing with higher oil prices. Moreover, the policy conditions attached to oil facility drawings should be relaxed and the share available to the developing countries enlarged. In addition, the amounts available under the credit tranches should be increased substantially.[14] Advance in these respects, together with improved compensatory financing, would go a long way towards allowing developing countries to cover their exceptionally large payments deficits in an appropriate way, that is, without restraining their growth needlessly and adding a further recessionary drag on the world economy.

31. IMF has decided to dispose of one-sixth of its gold holdings. One-half of the amount is to be distributed to members in proportion to their quota and one-half is to be sold at market-related prices, the profits financing a Trust Fund for the benefit of developing countries with low *per capita* income. It will be important to ensure that loans from the Trust Fund are not subject to excessively onerous conditions and that in future the disposal of all the remainder of the Fund's gold holdings are used for the benefit of developing countries.

CHAPTER III

## *The debt problem*

### A. Recent trends and current policies

32. Debt service payments constitute a rigid element in the balances of payments of developing countries. Policies relating to debt service, therefore, take on considerable importance in periods of balance-of-payments difficulties. At the same time, debt-service payments are the direct result of policies regarding the longer-run transfer of resources to developing countries, and the magnitude and significance of debt payments must be seen in the context of the system of international co-operation designed to bring about this transfer.

33. The net transfer of resources[15] to 67 non-oil-exporting developing countries resulting from grants and from loans giving rise to public and publicly-guaranteed debt increased from \$3.5 billion in 1965 to \$8.5 billion in 1973, implying an average annual rate of growth of 12 per cent during the period 1965-1973. When account is taken of price increases in the goods and services made available to developing countries, however, the annual growth in the real value of the transfer was of the order of 5 per cent.

34. The patterns of growth of disbursements and of debt-service payments varied significantly among groups of countries during the period 1965-1973. For countries with *per capita* GNP in 1973 of \$300 or less, aggregate gross disbursements of grants and loans increased from \$2.6 billion in 1965 to \$4.9 billion in 1973, implying an annual rate of growth of 8 per cent during the period 1965-1973. Debt-service payments grew at double that rate, however, so that the net transfer of resources to these countries expanded at an annual average rate of only 6 per cent over the period, or at slightly less than the rate of increase of prices of goods and services financed by these transactions. For these countries, the real value of the net transfer effected in 1973 was consequently somewhat lower than that which occurred in 1965. Prospects are for declines in the level of net transfer in real terms, in view of the fact that debt-service payments will continue to grow while official flows to these countries – which constitute the bulk of disbursements – may not increase substantially in real terms.

35. As regards non-oil exporting developing countries with GNP in 1973 of more than \$300, gross disbursements, debt service and net transfer all advanced at an average annual rate of 17 per cent during the period 1965-1973. It should be noted, however, that many of these countries secured loans during this period at relatively high interest rates and short maturities, and consequently a substantial part of these loans are due for repayment during the remainder of the decade. Moreover, the external capital requirements of these countries for the remainder of the decade have increased dramatically. The question arises whether the rate of gross disbursements can increase faster than in the past, so as to allow for increases in the net transfer of resources.

36. There is a growing concern that, if "stagflation" in developed market-economy countries continues, if official development assistance flows do not increase at the rates required to meet the 0.7 per cent target, and if long-term capital markets do not function smoothly, many developing countries may find it difficult to service their debts. Indeed, it is this concern that has given rise to active discussion in

[14] At its meeting held at Kingston, Jamaica, in January 1976, the IMF Interim Committee agreed that in the period before the increase in Fund quotas of 32.5 per cent into effect, each credit tranche should be enlarged by 45 per cent, from 25 per cent of quota to 32.5 per cent. It was also decided, however, that the oil facility should not be continued. It has been estimated that, partly as a result of these decisions, IMF will be able to furnish in 1976 a total of about \$2.5 billion in payments financing to non-oil exporting developing countries on appropriate policy conditions. (For an explanation of this figure and a discussion of the Kingston agreements, see document TD/189 reproduced below, chap. III.) This figure is insignificant compared with the \$45 billion deficit which the non-oil-exporting developing countries are estimated to have run in 1975, and the \$38 billion deficit expected for 1976.

[15] Defined as gross disbursements of grants and loans less debt-service payments.

international forums of possible international action in this area, so as to avoid the further disruption of the development process and the collapse of the system of financial co-operation.

37. The question that arises is whether past practices and policies in this area can effectively deal with the current problem. In the past, the attitude of creditor countries to debt-service difficulties has often failed to acknowledge the developmental aspects of the debt problem, namely, the insufficiency of official development assistance on the one hand, and the problems that arise in the use of international capital markets as a source of development finance, on the other. On the contrary, in most cases debt has been viewed in a strictly commercial context, and debt rearrangements treated as something to be undertaken only as a last resort, when the country was unable to meet its commitments. Moreover, such rearrangements, when they have taken place, have generally been designed primarily to restore the financial standing of the debtor country in capital markets rather than to foster its development, and they have consequently been accompanied, in the main, by stringent conditions which oblige the debtor to deflate, rather than by a comprehensive effort to provide the country with a volume and pattern of financing required to permit it to exploit its growth potential. To be sure, making debt renegotiation a painful and costly process serves to "discipline" debtor countries and to discourage borrowing for unproductive purposes. But while this may be the right stance in a context in which official development assistance is sufficient, and in which private capital markets function perfectly, it becomes questionable when externally induced deficits require the use of all available policy instruments for the attainment of the objectives of the International Development Strategy.

38. Noticeable progress has recently been made, however, in securing better international understanding of the context in which the debt-servicing difficulties of developing countries should be considered. This progress is embodied in the report of the *Ad Hoc* Group of Governmental Experts on the Debt Problems of Developing Countries on its third session;[16] it put forward, among other things, a set of agreed common elements for consideration in future debt renegotiations, which could provide guidance and contribute to securing broadly comparable treatment of debtor countries in similar situations. The Group also proposed that a debtor country acting through and with the assistance of UNCTAD or any other appropriate international institution should be able to convene an *ad hoc* meeting, inviting major creditor countries concerned and a number of developing countries with a view to examining at the international level a debtor country's situation in a wider development context, prior to debt renegotiations in the customary forums. The Trade and Development Board, in resolution 132 (XV), endorsed the recommendations in the Group's report and authorized the Secretary-General of UNCTAD to provide appropriate assistance to debtor countries in relation to the holding of such meetings.

39. Recently, considerable additional interest has been expressed in the debt-servicing difficulties of developing countries and the General Assembly adopted resolution 3362 (S-VII) on development and international economic co-operation, which states in section II, paragraph 8:

> The burden of debt on developing countries is increasing to a point where the import capacity, as well as reserves, have come under serious strain. At its fourth session, the United Nations Conference on Trade and Development shall consider the need for, and the possibility of, convening as soon as possible a conference of major donor, creditor and debtor countries to devise ways and means to mitigate this burden, taking into account the development needs of developing countries, with special attention to the plight of the most seriously affected countries as defined in General Assembly resolutions 3201 (S-VI) and 3202 (S-VI).

40. A question for consideration is the extent to which the conclusions of the *Ad hoc* Group of Governmental Experts could usefully govern international policies with regard to debt in the present situation. It is argued, for example, that the Group considered the question of general criteria for dealing with debt problems of developing countries in the light of past experience,[17] when the world economy was operating reasonably smoothly. In that context, there is some merit in the view that it is not possible to establish general criteria for debt relief applicable to all countries and that debt problems should be treated on an individual case-by-case basis, since these problems reflect external or international conditions peculiar to particular developing countries. But the present debt-servicing difficulties of developing countries are not the result of specific external circumstances peculiar to particular countries, nor do they reflect mismanagement on the part of those countries. The problem has clearly a more general dimension, since it springs from maladjustment in the world economy and is beyond the ability of developing countries to control. It would appear therefore that the "common elements" agreed upon by the Group could be expanded so as to include general principles that would guide such multilateral debt renegotiations as might take place in order to deal with the current debt-servicing problems of developing countries.

### B. Proposals for international action

41. In the consideration of a broad conceptual framework that might guide policy action with regard to debt relief in the immediate future, the underlying causes of the debt-servicing difficulties of developing countries need to be borne in mind. With regard to the most seriously affected countries, the underlying difficulty relates to the non-availability of official development assistance and balance-of-payments support credits in adequate amounts and on appropriate terms and conditions. In the absence of decisive action in both of these fields, the *per capita* income of many of these countries will experience a decline during the second half of the present decade. It should be noted in this connexion that a sizeable proportion of the export

[16] See *Debt problems of developing countries* (United Nations publication, Sales No. E.75.II.D.14).

[17] *Ibid.*, para. 32.

earnings of these countries is used to service debt repayments. Debt-relief measures for these countries could therefore make an important contribution to solving the development crises they are now facing. With this in mind, the following proposals are put forward:

(*a*) The most seriously affected countries should have their debt-servicing payments on official assistance loans waived for the remainder of the decade; in this context, consideration should be given to the possibility of converting the official development assistance debt owed by the least developed countries into grants;

(*b*) Multilateral lending institutions should provide programme assistance to the most seriously affected countries in an amount not less than the debt-servicing payments by these countries to the multilateral institutions.

42. It is often argued that measures along these lines may not result in an additional net flow of resources to developing countries, since many development assistance programmes of the donor countries are set up on a net transfer basis. It should be pointed out, however, that even if debt relief were not to yield higher net transfers to recipient countries, it would still improve the quality of assistance; debt relief would unblock a sizeable part of free foreign-exchange earnings for the financing of necessary imports, while new development assistance is usually tied not only to sources of procurement but also to specific programmes or projects that may not be high on the priority project list of recipient countries.

43. It is also argued that debt relief to these countries on the basis of internationally agreed criteria may alter the existing distribution of assistance to developing countries. It should be noted, however, that gross disbursements of official assistance to developing countries and debt-service payments on official loans have similar country distribution patterns, and that donor countries would retain full control over the geographical distribution of all official assistance other than debt relief; consequently, debt relief on official loans need not alter significantly the pattern of disbursement of assistance to developing countries.

44. With regard to other developing countries whose debt relates mainly to guaranteed or unguaranteed private loans, the problem arises from the short-term structure of the debt. Many of these countries do not appear to be in need of concessional debt relief, nor do they wish to engage in multilateral negotiations that would affect their continued access to capital markets. But these countries will clearly benefit from arrangements that would iron out the "bunching" of private debt over a longer period.

45. In so far as the refinancing of this debt at market-related interest rates but relatively longer maturities cannot be affected by the private capital markets themselves, consideration should be given to working out *ad hoc* multilateral arrangements for this purpose.

46. In order to facilitate the funding of such debts, consideration should be given to the establishment of an *ad hoc* international fund to refinance – at commercial interest rates but with maturities of, say, 15 years – the commercial debts of developing countries requesting such refinancing. Developed countries could either contribute resources directly to be fund or could provide the guarantees to bond flotations by that fund; alternatively, the central banks of developed countries might undertake to purchase bonds issued by such a fund. The participation of each developed country in the fund could be determined in the light of the commercial debt owed to it by developing countries. Moreover, other countries in a position to do so would be able to subscribe to the capital of the fund on a voluntary basis.

47. It may be argued that the establishment of such a fund could be construed as a danger signal and, as a result, developing countries might be faced with reduced access to capital markets. In fact, the establishment of such a fund will surely have the opposite effect; private lenders are likely to take a more positive stand with regard to the provision of loans to developing countries, when it is known that Governments, acting collectively, stand ready to refinance, on commercial terms, the commercial debts of those countries which face "bunching" problems. Moreover, a refinancing facility will also improve the portfolio of the private lending institutions.

## CHAPTER IV

## *The flow of financial resources*

### A. Past performance

48. International finance co-operation played an important role during the 1960s and early 1970s in generating flows of funds to developing countries and thereby assisting them to raise their rates of growth towards the level foreseen in the International Development Strategy. Such co-operation, none the less, fell short by a wide margin of what was required to give full support to the aims of the Strategy, and in some instances the direction of movement was away from that envisaged by the Strategy. The countries members of DAC, for example, devoted 0.53 per cent of their collective GNP to official development assistance in 1961-1962, but only 0.30 per cent in 1973 and 0.33 per cent in 1974. To be sure, a number of smaller donor countries made significant progress toward meeting the official development assistance target during this period. The over-all outcome, however, was largely the consequence of the flagging aid performance of the major donor countries, a performance associated with disillusionment and "fatigue" with the aid process which resulted, among other things, from over-estimates by Governments of the ability of aid to achieve a multiplicity of objectives – including non-economic objectives – and from a tendency to exaggerate to the public at large the cost of providing aid. As a consequence of this "fatigue", it became increasingly difficult for some donor countries to secure legislative approval for budgeted outlays for development assistance.

49. Non-concessional flows, on the other hand, increased rapidly. Lending by multilateral institutions and private bilateral flows both grew at an average annual rate of 13 per cent between 1961 and 1974, and other official

flows by 18 per cent. However, the various categories of non-concessional flows grew spasmodically. Moreover, the growth of non-concessional flows was able only partially to substitute for increased official development assistance, particularly because such flows were concentrated on a small number of countries; this is true not only of Euro-currency lending but also of lending by multilateral institutions, and of other categories of non-concessional flows.

50. For developing countries with *per capita* GNP of $250 or less per annum, these developments resulted in a fall in receipts of official development assistance of 9 per cent over the period 1969-1973, and a concurrent fall in other flows of roughly 23 per cent.[18] Although both categories of flows increased in 1974, a year in which these countries had a sharply higher payments deficit, the inadequate flow of financing relative to needs explains in part why the average annual growth rate of these poorest countries from 1970 to 1974 was a mere 3 per cent – that is, only half the target figure established by the International Development Strategy for the Second United Nations Development Decade for the developing countries as a whole.

51. During the period 1969-1974, countries with *per capita* incomes of more than $250 per annum, taken together, succeeded in surpassing by half a percentage point the income growth target of 6 per cent per annum. For many of them, the financing problem was, in the main, one of terms, conditions and continuity, rather than aggregate volume. Countries borrowing extensively on commercial terms have increasingly found it necessary to continue to step up their borrowing in order to be able to maintain, let alone to increase, the net inflow of real resources. Borrowing permits countries to step up their development and consequently their export growth; on the other hand, vigorous export growth is often decisive in establishing and strengthening creditworthiness, and hence the ability to borrow. Thus, a circular and self-reinforcing relationship between capital flows and export growth can enable a country to accelerate its development when the external environment is favourable, and it is probable that the rapid expansion in commercial borrowing by several developing countries in the 1960s and early 1970s was a reflection, to a significant degree, of the general dynamism in the export sector of these countries. But the cumulative effect of a period of growth combined with indebtedness is to heighten greatly the sensitivity of a country undergoing such a process to changes in its terms of trade and export markets, and in conditions in international capital markets. Growth supported by heavy recourse to private lending may therefore prove to be precarious.

### B. Considerations to be taken into account in devising international measures

52. Devising policies capable of dealing with the unsatisfactory present state of affairs as regards development finance presents unusually difficult problems. It is evident that decisive action to adapt the system of international financial co-operation to the needs of developing countries will require renewed political commitment to the objectives of the Second United Nations Development Decade, to the concept of financial co-operation indispensable to those objectives, and in particular to the attainment of the 0.7 per cent target for official development assistance.

53. To be sure, at present a relatively small number of donor countries have clearly demonstrated that they possess the necessary commitment and political will in respect of these objectives. Development assistance from these countries is expanding rapidly and plans have been made either to reach or to surpass the official development assistance target. Moreover, the development assistance programmes of these countries typically consist of disbursements of grants and loans on highly concessional terms. Because the absolute magnitude of the development assistance programmes of these countries is still relatively small, however, this has failed to offset the relative declines in the programmes of the traditional donors.

54. In contrast to this group of small donor countries, the major and traditional aid donors have development assistance programmes that are highly dispersed geographically and of considerable absolute magnitude. In the main, it is these countries whose policies have a widespread impact on developing countries as a whole. Indeed, the United States of America alone provides roughly one-third of all official development assistance emanating from DAC member countries, and policies in this country regarding the magnitude and distribution of aid thereby acquire considerable importance. It is precisely among the major traditional aid donors, however, in which the political commitment to development and to the aims of the Second United Nations Development Decade is weakest and, consequently, where increases in development assistance have been modest or non-existent.[19] Past efforts to secure a renewal of the necessary political commitment by the Governments of these countries to undertake the steps necessary to re-establish the viability of their assistance programmes have not yielded results, nor has there been interest in various proposals designed to lessen the political difficulties of securing appropriations for funds in the present circumstances.

55. Instead of focusing on means for increasing flows, attention has been diverted to the question of the distribution of existing aid flows. There is no question that there is room for improvements in the distribution of aid. Nor can it be questioned that the aid needs of certain countries or groups of countries are particularly acute. It in no ways follows from the above, however, that apart from some oil-exporting countries, the needs of other developing countries for development assistance has been lessened. To redistribute assistance flows in present circumstances is equivalent to asking some non-oil-exporting developing countries to meet the financial needs of other non-oil-

[18] Rates refer to changes in levels of flows measured at constant prices and exchange rates.

[19] The real value of official development assistance expenditures of the United States of America fell by 35 per cent between 1970 and 1974.

exporting developing countries, something that is completely out of the question.

56. The tendency to redirect existing aid flows to certain "poor" developing countries, coupled with the increasing concentration of private flows to resource-rich countries may well have serious consequences. First, a large number of developing countries are likely to be excluded from such a selective "bailing-out" procedure. Secondly, the amounts of additional assistance that could be made available to the "poor" developing countries by redistributing a given total, would be hardly enough to sustain current levels of income *per capita*. Thus, these countries would be condemned to perpetual poverty. Thirdly, countries forced to rely almost exclusively on private capital might experience "stultifying" growth, characterized by lopsided production patterns and income distribution, by heavy dependence on external aid and by social instability.

57. In order to counteract these trends, a firm political commitment is required from all developed countries, and especially the major donors, to the financial co-operation objectives of the Second United Nations Development Decade. In this connexion, particular emphasis should be placed on the early attainment of the 0.7 per cent target for official development assistance and the distribution of such assistance among developing countries on the basis of objective criteria, including, *inter alia*, allowance for differences in levels of development, the capacity usefully to absorb private flows and to service the associated debt, and the need to ensure an equitable distribution of income.

58. With regard to the attainment of the official development assistance target, the suggestion has been made that a special "development" tax be levied on incomes in developed countries, and the proceeds earmarked for development assistance. Such a tax, which could supplement the funds allocated to development assistance in the normal ways, would have the additional merit of generating funds for development assistance that would increase *pari passu* with incomes in developed countries.

59. As regards the terms on which official development assistance is supplied, there is merit in the proposal that it should be in the form of the untied IDA-type of loan, or preferably in the form of grants. This proposal has the advantage of equating official development assistance with aid, thus making burden-sharing comparisons among donors less ambiguous than they are at present.

60. In addition to assistance flows falling under heading of official development assistance, attention may be given to other possible sources of concessional finance. Proposals in this respect include the "link" between the creation of SDRs and additional development finance, the use of resources from the sea-bed, and the use of profits derived from sales of monetary gold held by IMF.

61. Adequate flows of official development assistance will also improve the capacity of many developing countries usefully to absorb non-concessional flows. A number of suggestions have been put forward designed to enhance the access of developing countries to international capital markets. These include the possible easing of regulatory and other constraints affecting access by developing countries, as well as the proposal that developed countries should provide a guarantee covering the debt of developing countries incurred in private capital markets. The issues that arise in this area are currently being considered by a working group of the Joint IMF/World Bank Ministerial Committee on the Transfer of Real Resources to Developing Countries.

62. Greater use could also be made of the multilateral lending institutions as a means for channelling funds from private capital markets to developing countries. For the full potential of these institutions to be utilized, it would be necessary for their capital subscriptions to be increased substantially. The benefits to developing countries of the financial intermediation of the multilateral institutions would be enhanced if a greater proportion of the regular lending of such institutions were directed toward developing countries that do not themselves have systematic access to funds from private sources, and if a greater proportion of their regular lending were in the form of programme, as opposed to project, loans.

63. A further issue that arises is that of ensuring that the increased flow of financial resources is distributed among developing countries in a manner consistent with their needs, and that the terms on which such flows are made available correspond to the debt-servicing capacity of recipient countries. In this connexion, the question of the distribution of official development assistance is of central importance. A number of developing countries will have to finance the bulk of their payments deficits with grants or, at best, with IDA-type loans. Some other developing countries will be in a position to blend aid and non-concessional flows. While the exact "mix" will vary from country to country, it should be noted that all non-oil-exporting developing countries will require a certain minimum degree of concessionality in total capital inflows.

64. If official development assistance is to be provided in the form of grants or grant-like contributions and if the volume target of 0.7 per cent for such assistance is to be attained, it will indeed be possible to allow for an appropriate variation of the terms of total flows to developing countries by combining budgetary aid allocations and funds raised in private capital markets. One proposal that has the merit of increasing the amount of concessional loans without increasing budgetary outlays is to use part of the official development assistance funds to subsidize the interest costs on loans to developing countries. This technique is already embodied in the "third window" established by the World Bank and in the oil facility established by IMF. The question arises, however, whether the technique should be expanded within the World Bank, whether it could be usefully adopted by other multilateral lending institutions, and whether it has a role to play in the lending programmes of donor countries.

65. A useful extension of this mechanism that may merit consideration entails earmarking the proceeds of a special "development tax" on incomes in developed countries to finance bilateral and/or multilateral interest subsidy

schemes. It is argued that providing such schemes with a secure source of financing in this way would facilitate their operation, and would allow the scale of this operation to expand automatically with the growth of incomes in developed countries. Moreover, the leverage available through this mechanism would allow a volume of concessional lending to be achieved that would be a multiple of the proceeds of the development tax.

66. In the past, perhaps too little attention has been paid to the question of the distribution of official development assistance among all developing countries, and the mechanisms through which a certain amount of aid can be combined with non-concessional loans so as to yield an optimal degree of concessionality in total capital flows to recipient countries. There appears to be a need, however, for establishing internationally agreed criteria which may serve as guidelines in the context of a broader framework of economic co-operation and which would take into account, *inter alia,* the external capital requirements and trade prospects of developing countries. These criteria would, certainly, have to be reviewed periodically and possibly revised in the light of changing conditions in the world economy and in the recipient countries.

67. The emergence of sizeable balance-of-payments surpluses for a number of oil-exporting countries has resulted in a marked change in the constellation of financial resources on a world scale. These countries have already provided considerable funds on concessional terms to other developing countries, and there is in addition a great potential for expanding the flow of long-term investments by oil-exporting countries to other developing countries. Assistance on concessional terms by oil-exporting countries cannot, however, be treated on the same basis as the commitments of developed countries to transfer resources to developing countries under the official development assistance target; it may best be reviewed in the context of financial co-operation among developing countries.[20]

68. The proposals outlined above form an integral part of the reform of the broader system of economic co-operation and especially of the trading and monetary system. These proposals are based on the expectation that the major deficiencies in the inter-related fields of trade and money will be removed, and that the minimal political will necessary for a resumption of progress towards the 0.7 per cent target for official development assistance will be forthcoming. If it were to prove impossible to move ahead on a broad front, a different set of problems would need to be dealt with. Financial disengagement by one or more major donors would serve to undermine the system of economic co-operation and could trigger off widespread crises in developing countries. It is very difficult to assess the consequences of such adverse developments but they might bring about social transformations of unknown dimensions and abrupt changes in international economic relations that would increase the real costs to all countries.

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[20] See the report by the UNCTAD secretariat entitled "Economic co-operation among developing countries" (TD/192), reproduced below, for a more detailed discussion of the potential for increased financial co-operation among developing countries.

# DOCUMENT TD/188/Supp.1*

## International financial co-operation for development

### *Report by the UNCTAD secretariat*

*[Original: English]*
*[13 February 1976]*

CONTENTS



*ANNEXES*



*LIST OF TABLES IN THE TEXT OF THE REPORT*



* Incorporating documents TD/188/Supp.1/Corr.1 and TD/188/Supp.1/Add.1.

*LIST OF TABLES IN THE ANNEXES TO THE REPORT*

*Annex I*

## *Introduction*

1. Financial resources are supplied to developing countries from a multiplicity of national and multinational sources, and in a variety of forms. If these essentially compartmentalized flows are to serve as effective instruments for promoting the development of developing countries, it will be necessary that they complement and support each other in a coherent way. Fashioning this coherence is one of the prime tasks of international financial co-operation, and only when such coherence has emerged can one speak of a "system" of international financial co-operation.

2. A system of international financial co-operation would have to mould the actions of individual national and international entities in three areas:

(*a*) It would need to ensure reasonable consistency between the over-all volume of financial flows to developing countries and the aggregate amount of such flows required if developing countries were to reach agreed minimal growth rates;

(*b*) It would have to ensure reasonable consistency between the distribution among recipients of financial flows and the relative needs of individual recipients;

(*c*) It would need to ensure reasonable consistency between the proportions in which various types of flows and financial facilities were made available to developing countries and the relative needs of developing countries for these various types of flows and facilities.

3. The present situation could be characterized as one in which the necessary elements of a system exist only as regards the first of these three areas, where the financial flow targets are designed to generate external financing consistent with the development objectives of the International Development Strategy for the Second United Nations Development Decade.[1] In this area, the problem is

[1] General Assembly resolution 2626 (XXV) of 24 October 1970.

not one of securing greater coherence of policy actions through the provision of international guidelines, but of securing better compliance with those that exist at present.

4. In the other two areas, some systematic elements exist, but these are not such as to enable one to speak of a "system" of international financial co-operation. In these areas, then, an important task in international discussions is to seek an appropriate and coherent understanding, at the international level, of the broad issues relating to the form in which funds become available to developing countries and the distribution of those funds among developing countries.

5. As regards the form in which funds become available, a particularly urgent requirement, in the present world economic situation, is to secure a better understanding of the changes that have recently taken place in the relative needs of developing countries for balance-of-payments finance. Owing in part to the compartmentalization of payments finance in channels quite distinct from those of development finance, the close interdependence of the two has not always been fully appreciated. Development finance has as its objective the systematic transfer of resources to developing countries, and the redistribution over the long term of savings and investment in the system, in order to raise the rate of growth of developing countries above that which it would otherwise attain. Balance-of-payments financing is designed to offset balance-of-payments deficits sustained by developing countries, and in particular those arising from conditions in the world economy at large or otherwise beyond the control of developing countries. Such financing thus serves to insulate the development programmes of developing countries from adverse world economic conditions, thereby furthering the more fundamental objective of raising their growth rates.

6. The attainment of the aims of international financial co-operation thus requires a panoply of mutually supporting international policies, some of which are designed to bring about the long-run transfer of resources, and some of which are aimed principally at countering more immediate balance-of-payments difficulties. International policies with regard to debt are of particular significance, because such policies bridge to a considerable extent the two functions mentioned above. The magnitude and timing of debt-service payments are important determinants of the net transfer of resources to developing countries; at the same time, debt-service payments represent a rigid element in the foreign-exchange budget of developing countries, and policies designed to reduce the rigidity would have an important role to play in balance-of-payments management.

7. In the present report, several of the more salient questions that arise in considering how various policy actions in the field of international finance might better be moulded into a system of international financial co-operation are examined. In chapter I, a number of issues in the field of development finance are dealt with, including the adequacy of the flow targets as guides to the over-all magnitude of financial flows required in the years to come, the effect of failure to meet the official development assistance target on the distribution of flows as between their concessional and non-concessional elements, and the effects of this and of other policy decisions on the distribution of flows among recipients. In chapter II, the recent balance-of-payments experience of developing countries is examined, and conclusions are drawn with regard to the adequacy of balance-of-payments finance in the present situation. In chapter III, the role that new policies with regard to the indebtedness of developing countries would play in allowing those countries to overcome their present external financial difficulties and to put their future development on a sound basis as regards its international financing is considered.

## CHAPTER I

## *Financial resources for development*

### A. Capital requirements and capital availabilities: the consistency between flow and growth targets during the second half of the Second United Nations Development Decade

8. Studies prepared at the beginning of the Second United Nations Development Decade indicated that there would be broad technical consistency between the volume of flows implied by fulfilment of the flow targets and the external financing required by the growth targets contained in the International Development Strategy.[2] This consistency held, roughly speaking, during the first half of the Decade. There is evidence, however, that the capital requirements associated with the rates of growth stipulated in the Strategy will be higher in the second half of the Decade than they were in the first half. Thus, projections of the capital requirements in 1980 of non-oil-exporting developing countries indicate that these requirements will grow quite rapidly during the remainder of the decade.[3] As may be seen from table 1 below, the level of net capital inflows required to achieve the income growth target of the Second Development Decade is projected to reach in 1980 $119 billion at current prices, corresponding to $90 billion at 1975 prices. These projected capital requirements are equivalent to 1.7 per cent of the projected GNP of OECD countries in that year and to 1.5 per cent of the projected combined GNP of OECD countries and of the socialist countries of Eastern Europe. The official development assistance component of the capital requirements in 1980 is assumed to be equivalent to 0.7 per cent of the projected GNP of OECD countries in that year.

9. The capital requirements of the non-oil-exporting developing countries in 1980 have been projected on the basis of a number of assumptions regarding the course of events in the world economy. The sensitivity of the results to changes in those assumptions is set out in table 2. As may be seen from that table, if the annual average growth

[2] See *Trade prospects and capital needs of developing countries during the Second United Nations Development Decade* (United Nations publication, Sales No. E.72.II.D.11).

[3] For a detailed analysis of capital requirements of developing countries, see "Trade prospects and capital needs of developing countries, 1976-1980: report by the UNCTAD secretariat" (TD/B/C.3/134 and Add.1).

TABLE 1

**Balance of payments in 1973-1975 and projections for 1980 for non-oil-exporting developing countries**

*(Billion dollars)*

| | 1973 | 1974 (preliminary) | 1975 (estimate) | 1980 (projected) |
|---|---|---|---|---|
| Exports, f.o.b.[a] | 65.3 | 90.1 | 88.3 | 157.3 |
| Imports, c.i.f. | 78.3 | 124.2 | 129.9 | 244.3 |
| Trade balance | −13.0 | −34.1 | −41.6 | −87.0 |
| Non-factor services, net | 4.0 | 4.8 | 2.7 | 3.5 |
| Investment income payments, net | −6.1 | −7.5 | −9.7 | −33.9 |
| Private transfers | 2.9 | 3.3 | 3.4 | 5.6 |
| Current account balance[b] | −12.2 | −33.5 | −45.2 | −111.8 |
| Net capital inflow (current prices)[c] | 20.3 | 35.9 | 43.2 | 118.6 |
| Net capital inflow (1975 prices)[c] | – | – | 43.2 | 89.7 |

*Source:* UNCTAD secretariat, based on data from the Statistical Office of the United Nations and IMF and projections derived from the LINK system (for explanation of methodology, see "Trade prospects and capital needs of developing countries; 1976-1980: report by the UNCTAD secretariat" (TD/B/C.3/134/Add.1, sect. II.A)

[a] Assuming annual growth rate of OECD countries of 4.8 per cent for the period 1975-1980 and of 6 per cent for the socialist countries of Eastern Europe.

[b] Excluding official transfer.

[c] For the projection period, these figures represent the net capital requirements and are computed as the current account balance plus an allowance for reserve increases required to maintain a constant reserves-to-imports ratio.

TABLE 2

**Non-oil-exporting developing countries: change in net capital requirements for given changes in assumptions**

*(Billion dollars)*

| Changes in assumptions | Change in capital requirements, 1980 |
|---|---|
| I. *Alternative growth targets for developing countries* | |
| (*a*) Target growth rate of non-oil-exporting developing countries reduced from 6.6 per cent to 5.6 per cent per year | −18.3 |
| (*b*) Target growth rate reduced from 6.6 per cent to 4.8 per cent per year | −33.4 |
| II. *Alternative OECD growth rate assumptions* | |
| (*a*) OECD growth rate for the remainder of the decade increased from 4.8 per cent to 5.8 per cent per year | −8.7 |
| (*b*) OECD growth rate for the remainder of the decade decreased from 4.8 per cent to 3.8 per cent per year | +12.3 |
| III. *Alternative assumptions about trade among developing countries* | |
| (*a*) The share of non-oil-exporting developing countries in trade with the OPEC countries maintained at its 1973 level | −6.6 |
| (*b*) Growth rate of trade among developing countries (excluding OPEC countries) during 1974-1980 increased from 10 per cent to 15 per cent per year on the basis of current prices | −11.0 |
| IV. *Alternative assumptions about other trade relations of developing countries* | |
| (*a*) The rate of growth of exports of manufactures (in current prices) to industrialized countries increased from 15 per cent per year to 20 per cent per year | −12.7 |
| (*b*) The growth rate of exports (in current prices) to socialist countries increased from 16 per cent to 20 per cent per year | −3.2 |

*Source :* UNCTAD secretariat estimates.

rate of OECD countries were to increase by 1.0 percentage points from the projected rate of 4.8 per cent, the annual capital requirements of the non-oil-exporting developing countries would be reduced by less than $10 billion in 1980. Conversely, if the growth of OECD countries were to fall by 1.0 percentage points per annum from the projected rate, capital needs would increase by slightly more than $12 billion by 1980. This asymmetry results from the fact that the projected deterioration in the terms of trade of developing countries in the case of a slowdown in the rate of growth of OECD countries is proportionately larger than the projected improvement in those terms of trade in the case of an acceleration in the rate of growth of OECD countries.

10. It is also worth noting that in the same way that the rate of growth of OECD countries affects the capital requirements of developing countries, the extent to which the OECD countries meet the capital requirements will also have a bearing on the rate of growth of the OECD countries themselves. Thus, it has been estimated that capital flows from OECD countries of the order implied in the flow and aid targets of the International Development Strategy would raise the annual growth rates of GNP of those countries to 0.7 percentage points above those that would be reached if the performance of OECD countries with respect to the targets were to continue as in the past.[4] This estimate serves to highlight the significance of the acceleration of the pace of development of developing countries for the growth of the developed countries themselves. Viewed in this context, increases in the transfer of resources to developing countries serve to accelerate the growth of both donor and recipient countries.

11. Failure to meet the flow targets would have a seriously adverse effect on the development of developing countries. Indeed, for a large number of developing countries, failure to more towards the target of 0.7 per cent of GNP would lead to severe constraints on imports and development expenditures which, in turn, would result in substantially lower growth rates than those experienced in the past. For example, projections indicate that under these conditions the *per capita* income of the most seriously affected countries in 1980 may not be appreciably higher than the levels obtained in 1973, with many of these countries even experiencing declines in *per capita* income.

12. The situation for other developing countries would be equally serious; although these countries may succeed in maintaining modest advances in *per capita* income, they would experience a decline in growth rates even greater, in relative terms, than that experienced by the most seriously affected countries.

13. Admittedly, the most probable constraint with regard to the availability of development finance is the scarcity of concessional funds. It is therefore possible that, in the absence of sufficient concessional finance, several countries might attempt to maintain growth rates by financing their increased payments deficits by loans from private capital markets. The feasibility of this course of action, however, may be doubted. For example, it is estimated that, if loans from private markets were to make good the shortfalls in official flows, gross borrowing from private capital markets would have to increase by 35 per cent per annum, reaching an annual level of $110 billion in 1980. For developing countries as a whole, the substitution of private capital for official development assistance on such a scale would result in an increase in the ratio of debt service and profit remittances to exports of goods from 15 per cent in 1975 to about 45 per cent in 1980.

[4] This effect is discussed at length in *Trade prospects and capital needs of developing countries...*

## B. Financial co-operation: the lessons from the past

14. In section A above, it is argued that shorfalls in the attainment of the financial flow targets appear likely to have particularly grave consequences for developing countries during the remainder of the present decade. The failure of the developed countries during the first half of the decade to meet the flow targets set out in the International Development Strategy have already had adverse consequences for the growth of developing countries, and have had an important influence on the external financial position, and in particular, the debt-servicing situation, with which they must face the future. In retrospect, it seems clear that the main shortcoming in international financial co-operation has been the failure of the developed countries to move towards, let alone achieve, the 0.7 per cent target for official development assistance. As a consequence, concessional and non-concessional flows have not become available in the proportions envisaged in the Strategy, and non-concessional flows have come to play an important role as the source of growth in external financing. Yet the character of these flows, together with some of the policies undertaken with regard to them, have prevented from making good, to the extent that might have been possible, the shortfall in official development assistance.

### 1. *Development assistance up to 1974: the principal characteristics*[5]

15. The shortfall in official development assistance from the levels established as targets in the International Development Strategy has been a major deficiency in the pattern of international co-operation for development. In nominal terms, total net disbursements of official development assistance by DAC member countries[6] grew, on average, at an annual rate of around 5 per cent from 1961 to 1974. In real terms, however, it failed to advance; indeed, its 1974 level stood below that for 1963 (see table 3). On the other hand, income growth in the developed market-economy countries was rapid, their combined GNP rose by over three-fourths during the 1960s.

[5] For detailed information on the topics covered in this sub-section, see annex I below.

[6] The socialist countries of Eastern Europe have not agreed to commit themselves to the flow targets.

TABLE 3

**Net financial flows from DAC member countries to developing countries and multilateral agencies, 1961-1974[a]**

*(Million dollars)*

| Year | Official development assistance: At current prices and exchange rates | Official development assistance: At 1970 prices and exchange rates | Non-concessional flows (at current prices and exchange rates): Bilateral official | Non-concessional flows: Bilateral private | Non-concessional flows: Via multilateral institutions | Total flows: Valued at current prices and exchange rates | Total flows: Valued at 1970 prices and exchange rates |
|---|---|---|---|---|---|---|---|
| 1961 | 5 150 | 6 190 | 719 | 3 016 | 320 | 9 205 | 11 131 |
| 1962 | 5 402 | 6 385 | 527 | 2 214 | 254 | 8 396 | 10 008 |
| 1963 | 5 728 | 6 676 | 240 | 2 590 | −36 | 8 521 | 10 108 |
| 1964 | 5 902 | 6 685 | −41 | 3 268 | 454 | 9 583 | 11 118 |
| 1965 | 5 873 | 6 659 | 300 | 3 865 | 252 | 10 289 | 11 800 |
| 1966 | 5 961 | 6 509 | 392 | 3 768 | 228 | 10 350 | 11 500 |
| 1967 | 6 511 | 7 024 | 477 | 3 881 | 487 | 11 356 | 12 493 |
| 1968 | 6 282 | 6 662 | 740 | 5 683 | 757 | 13 461 | 14 521 |
| 1969 | 6 550 | 6 809 | 577 | 6 148 | 404 | 13 680 | 14 415 |
| 1970 | 6 791 | 6 791 | 868 | 6 401 | 745 | 14 804 | 14 804 |
| 1971 | 7 661 | 7 187 | 986 | 7 195 | 1 037 | 16 878 | 15 923 |
| 1972 | 8 538 | 7 304 | 1 160 | 7 906 | 1 053 | 18 657 | 16 280 |
| 1973 | 9 378 | 6 526 | 2 073 | 11 192 | 647 | 23 290 | 17 316 |
| 1974 | 11 316 | 6 488 | 2 199 | 12 901 | −85 | 26 331 | 16 334 |
| 1961−1974 (per cent)[b] | 5.2 | 0.3[c] | 17.8 | 13.6 | 13.1[d] | 9.3 | 4.8 |

*Source:* UNCTAD secretariat, based on OECD, *Development Co-operation, 1975 Review* (Paris, 1975); OECD, *Flow of Resources to Developing Countries* (Paris, 1973).

NOTE. See general note, table 7 below.

[a] Including flows to southern European recipient countries and territories.

[b] Average annual rate of growth, calculated by fitting a log-linear regression equation to the relevant time series.

[c] The calculated rate of growth is not significantly different from zero at the 10 per cent confidence level.

[d] 1961−1973.

Consequently, official development assistance expressed as a proportion of GNP declined sharply; whereas it had stood at a level of 0.52 per cent in 1961-1962, by 1969 it had dropped to 0.34 per cent and stood at 0.33 per cent in 1974. This decline occurred notwithstanding the fact that the official development assistance provided by certain developed countries rose steeply. A number of smaller donors increased their disbursements substantially, registering significantly higher ratios of official development assistance to GNP. The disappointing aggregate figures are thus to be explained by the poor performance of some of the larger donor countries.

16. Behind the flagging aid effort of the major donors is the fact that aid programmes do not spring from a single-minded commitment to support the development process, but are motivated by a multiplicity of objectives. The promotion of development is indeed one major consideration, but others – such as the furtherance of the political, strategic, commercial and cultural influence of the donor country – also tend to be in evidence. This has raised a number of problems. Aid, in any event, could not have succeeded in fulfilling simultaneously all the different roles assigned to it, particularly by the largest donors. Moreover, experience has shown that the capacity of aid to further the political and military interests of its donors has often been quite limited. At the same time, the contribution that aid can make to development has sometimes been exaggerated, so that the impact of aid has tended to fall short of expectations. This has been partly due to the mistaken assumption that aid to developing countries could foster development as quickly as aid to the European countries had brought about their recovery from the ravages of the Second World War – a view that neglected to take due account of the length of time needed to overcome the structural impediments to economic growth in developing regions. Hence, groups in the major donor countries that had been strongly in favour of aid became less enthusiastic in its support. This "aid fatigue" in donor countries was not relieved by the fact that the general public was presented with an inflated picture of the sacrifice entailed by the assistance programmes; performance against the 1 per cent target was frequently taken as a measure of the aid effort, even though a large component of such flows involved no burden at all for the creditor country. Also, tied aid and food aid were depicted as exclusively international transfers, their role in generating internal transfers among sectors of the national economy being overlooked. Thus,

excessive and sometimes incompatible expectations from aid, on the one hand, and inflated estimates of its costs, on the other, served to bring about a virtual paralysis of the aid effort in the traditional donor countries.

### 2. *Non-concessional flows*

17. If official development assistance flows stagnated during the 1960s and early 1970s, other sources of funds displayed considerable dynamism. As may be seen from table 3, net non-concessional flows from DAC member countries to multilateral institutions grew rapidly between 1961 and 1974. This flow of funds from private capital markets to multilateral institutions allowed the latter to expand their regular lending programmes; net receipts by developing countries of loans from multilateral institutions at market-related interest rates rose from an average level of $170 million in 1961-1962 to $613 million in 1972-1973, which represents an average annual growth rate of 13 per cent.[7] This expansion was accompanied by diversification of the channels through which funds were disbursed. The share of the regional banks in total "hard" lending by the multilateral agencies, which had been 1 per cent in 1961, reached 27 per cent in 1973, while that of the World Bank Group fell from 99 per cent to 72 per cent (the difference being accounted for by the European Investment Bank).

[7] See annex I below, table I-11, for annual data, 1969-1975. In 1974, multilateral lending institutions turned heavily towards non-DAC sources for their borrowing at market interest rates. Consequently, flows of private funds from DAC member countries to multilateral institutions dropped precipitously. The lending activities of multilateral institutions also expanded sharply in 1974.

18. Non-concessional flows directed towards developing countries through bilateral channels also evidenced rapid growth during the 1960s and early 1970s. As is shown in table 3, bilateral official flows expanded at an average annual rate of nearly 18 per cent during the period 1961-1974 (although most of the growth occurred during the second half of the period), while private bilateral flows grew at an average annual rate of 14 per cent. Because of the dynamism of non-concessional flows, the growth rate of the total net flow from DAC member countries during the period (at current prices and exchange rates) was almost double that of official development assistance. Bilateral financial transactions of a non-concessional character have, however, grown in a spasmodic manner (see table 4). For example, in 1965 they advanced by almost one-third, mainly on the strength of a rapid increase in net private direct investment. In 1968, non-concessional flows jumped by nearly one-half, owing to the rapid growth in net disbursements of official and private export credits, in addition to a sharp increase in private direct investment. The most remarkable spurt occurred during 1971-1973, which witnessed the emergence of the Euro-currency market as an important source of funds for developing countries. Bilateral portfolio investment, however, also showed a sharp increase in 1972, but export credits registered a marked deceleration, apparently because of a

TABLE 4

**Non-concessional financial flows from DAC member countries to developing countries and territories,[a] 1961-1974**

*(Million dollars)*

| | *Export credits*[b] | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | *Official* | | *Private* | | | | | | | |
| *Year* | *Gross (1)* | *Net (2)* | *Gross (3)* | *Net (4)* | *Net bilateral official flows*[c] *(5)* | *Net bilateral portfolio investment and other (6)* | *Net private direct investment (7)* | *Total (net) (8) =(2)+(4) +(5)+(6)+(7)* | *Euro-currency credits*[d] *(9)* | *Total (10) =(8)+(9)* |
| 1961 | 893 | 636 | – | 573 | 83 | 610 | 1 834 | 3 735 | | 3 735 |
| 1962 | 698 | 458 | 352 | 572 | 68 | 147 | 1 495 | 2 740 | | 2 740 |
| 1963 | 480 | 190 | 398 | 660 | 49 | 327 | 1 603 | 2 830 | | 2 830 |
| 1964 | 421 | −123 | 584 | 859 | 82 | 837 | 1 572 | 3 227 | | 3 227 |
| 1965 | 666 | 198 | 464 | 751 | 102 | 655 | 2 459 | 4 165 | | 4 165 |
| 1966 | 777 | 259 | 627 | 1 124 | 133 | 470 | 2 174 | 4 160 | | 4 160 |
| 1967 | 927 | 392 | 921 | 1 007 | 85 | 770 | 2 103 | 4 358 | | 4 358 |
| 1968 | 1 267 | 646 | 1 033 | 1 597 | 93 | 940 | 3 146 | 6 422 | | 6 422 |
| 1969 | 1 234 | 502 | 4 553 | 2 047 | 75 | 180 | 2 921 | 6 725 | | 6 725 |
| 1970 | 1 497 | 578 | 5 217 | 2 142 | 290 | 716 | 3 543 | 7 269 | | 7 269 |
| 1971 | 1 763 | 573 | 6 508 | 2 831 | 412 | 733 | 3 632 | 8 181 | 1 000 | 9 181 |
| 1972 | 2 066 | 724 | 6 063 | 1 448 | 436 | 1 984 | 4 474 | 9 066 | 3 917 | 12 983 |
| 1973 | 2 486 | 1 117 | 6 938 | 1 196 | 956 | 3 286 | 6 711 | 13 265 | 9 271 | 22 536 |
| 1974 | 2 587 | 691 | 8 697 | 2 482 | 1 508 | 3 795 | 6 626 | 15 101 | 9 608 | 24 709 |

*Sources:* OECD, *Flow of Resources to Developing Countries, op. cit.*; OECD, *Development Co-operation, 1975 Review, op. cit.*

[a] Including flows to south European recipient countries and territories.

[b] Credits with an original maturity of one year or more.

[c] Other than official export credits.

[d] Estimates by the UNCTAD secretariat.

NOTE. See general note, table 7.

tendency on the part of those developing countries that could do so to borrow in the Euro-currency market rather than take up export credits. The ability of these developing countries to do so was of considerable benefit to them, inasmuch as they were thereby able to choose suppliers on the basis of quality and price rather than of the credit terms being offered. On the other hand, the interest costs of Euro-currency loans have generally been higher than those available for export credits.

19. The dynamic expansion of non-concessional flows, and in particular of private flows, has been instrumental in ensuring that the total flow of financial resources to developing countries expanded steadily in a period of lagging official development assistance. But the two categories of flows are only partial substitutes for each other. The characteristics of non-concessional flows, and their contributions to the development process, are quite different from those of official development assistance; governed essentially by criteria of creditworthiness, they are directed towards a relatively small number of developing countries. Indeed, the distribution of non-concessional lending shows a high degree of concentration. For example, during the period 1970-1973 seven countries, accounting for around one-fifth of the GNP of the developing world, received two-thirds of the funds raised by bond issues,[8] while six countries, with around one-quarter of the total GNP, accounted for two-thirds of publicized Euro-currency credits. Likewise, during the period 1969-1973, nine countries, accounting for 32 per cent of the combined GNP of developing countries, received two-thirds of private direct investment flows, while ten countries, accounting for 31 per cent of combined GNP, received two-thirds of the official and private export credit disbursements.

20. Paradoxically, perhaps, the multilateral development financing agencies also concentrated their regular lending on a relatively small number of countries. Nine countries, with 36 per cent of the total GNP of developing countries, received over two-thirds of the net disbursements of World Bank loans in the period 1969-1973; what is more, seven of these nine countries appear in one or more of the lists of principal recipients referred to in paragraph 19 above. Thus, while the multilateral lending institutions undoubtedly did succeed in making capital available to countries which were not in a position to tap sources of private capital, it would appear that their main function was to improve the terms of borrowing for those countries that already had access to such sources.

### 3. *The question of distribution*

21. The distribution of financial flows among developing countries is determined by a combination of policy measures taken by individual donor agencies and market forces. At present, there are relatively few international norms serving to guide the decisions of various donor agencies,[9] and those that do exist are partial and incomplete.

22. One practice that has emerged in recent years for dealing with the problem of co-ordinating donor activities is the organization of aid consortia and consultative groups. In these groups, donors jointly examine the aid needs of a particular recipient country and consider their joint and indivudal capacity to meet those needs. Although such international mechanisms ensure some measure of consistency in the treatment of a particular recipient country, they do not provide the basis for a general survey of the needs of that recipient relative to those of other developing countries.

23. Tentative and inconclusive steps towards meeting this problem were taken with the international designation of groups of developing countries having certain common characteristics, such as the least developed among the developing countries and the most seriously affected developing countries. Although the international evaluation of relative need that lies behind these groupings has not doubt been a useful process, the designation of these groups themselves is not without danger. The difficulty here lies not so much with the groups themselves, but with the tendency of some donors to adopt the view that because the needs of some recipients for concessional assistance are particularly urgent, the needs of other recipients have become less urgent. This attitude, although no doubt unintended, is perhaps the inevitable result of the technique of dividing developing countries into groups, rather than establishing measures and guidelines for relative need that apply uniformly to all developing countries.

24. In any event, the lack of comprehensive criteria in this area has led to a wide variety of practices, with the distribution of concessional assistance sometimes depending on historical, cultural or commercial ties, rather than on relative poverty or need. The variety of outcomes is illustrated by the fact that, in 1974, 85 per cent of Norway's bilateral official development assistance was directed towards recipients with a *per capita* GNP of less than $200, and only 0.3 per cent toward those with a *per capita* GNP of $1,000 or more. By contrast, in the same year, 27 per cent of France's bilateral official development assistance was directed towards recipients with a *per capita* GNP of less than $200, and 35 per cent towards those with a *per capita* GNP of $1,000 or more.[10]

25. In general, however, the failure of official development assistance to expand rapidly to meet the capital needs of developing countries, together with the recognized needs of the poorest countries and the increased access of some other developing countries to private capital, has led to a situation in which such assistance is being diverted from some developing countries to others. As may be seen from table 5, bilateral official development assistance to devel-

[8] Excluding Israeli bonds, which constitute a special case.

[9] Internal guidelines no doubt exist in most donor agencies. The precise nature of those guidelines is, however, rarely open to public scrutiny.

[10] See *OECD, Development Co-operation, 1975 Review* (Paris, 1975), statistical annex, table 31.

TABLE 5

**Distribution among groups of developing countries and territories of bilateral official development assistance of DAC member countries**

| *Countries or territories with GNP per capita in 1972 of:* | *1969-1970* | | *1972-1973* | | *1974* | |
|---|---|---|---|---|---|---|
| | *$ million* | *Percentage of total* | *$ million* | *Percentage of total* | *$ million* | *Percentage of total* |
| $149 and below[a] . . | 2 055 | 42.8 | 2 245 | 39.9 | 2 687 | 41.7 |
| $150-$299[b] . . . . . | 1 041 | 21.7 | 1 421 | 25.2 | 1 733 | 26.9 |
| $300-$449[c] . . . . . | 885 | 18.4 | 939 | 16.7 | 848 | 13.2 |
| $450-$599[d] . . . . . | 242 | 5.0 | 171 | 3.0 | 247 | 3.8 |
| $600-$799[e] . . . . . | 68 | 1.4 | 62 | 1.1 | 71 | 1.1 |
| $800-$999[f] . . . . . | 183 | 3.8 | 198 | 3.5 | 212 | 3.3 |
| $1000 and above[g]. . | 332 | 6.9 | 595 | 10.6 | 641 | 10.0 |
| Total . . . . . . . | 4 806 | 100.0 | 5 631 | 100.0 | 6 439 | 100.0 |

*Source:* OECD, *Development Co-operation, 1975 Review* (Paris, 1975) and data supplied by the OECD secretariat.

[a] Afghanistan, Bangladesh, Benin, Burma, Burundi, Chad, Democratic Yemen, Ethiopia, Gambia, Guinea, Haiti, India, Indonesia, Laos, Madagascar, Malawi, Maldives, Mali, Nepal, Niger, Nigeria, Pakistan, Rwanda, Somalia, Sri Lanka, Sudan, Timor, United Republic of Tanzania, Upper Volta, Yemen.

[b] Bolivia, Cape Verde, Central African Republic, Comoros, Egypt, Equatorial Guinea, Guinea-Bissau, Jordan, Kenya, Liberia, Macao, Mauritania, Morocco, Papua New Guinea, Philippines, Republic of South Viet-Nam, Senegal, Sierra Leone, Thailand, Togo, Uganda, United Republic of Cameroon, Western Samoa.

[c] Algeria, Angola, Colombia, Congo, Ecuador, El Salvador, Ghana, Guatemala, Guyana, Honduras, Iraq, Ivory Coast, Malaysia, Mauritius, Mozambique, Paraguay, Republic of Korea, Sao Tomé and Príncipe, Seychelles, Syrian Arab Republic, Tonga, Tunisia, Zambia.

[d] Brazil, Dominican Republic, Fiji, Iran, New Hebrides, Nicaragua, Oman, Peru, Saudi Arabia

[e] Territory of the Afars and Issas, Bahrain, Belize, Costa Rica, Lebanon, Mexico, Uruguay.

[f] Barbados, Chile, Gabon, Guadeloupe, Hong Kong, Jamaica, Panama, Surinam, Trinidad and Tobago.

[g] Argentina, Bahamas, Bermuda, Brunei, French Guiana, French Polynesia, Israel, Kuwait, Libyan Arab Republic, Martinique, Netherlands Antilles, New Caledonia, Qatar, Reunion, Singapore, United Arab Emirates, Venezuela.

oping countries and territoires with a *per capita* GNP of less than $300 expanded in nominal terms; the share of these countries in the total of such assistance flows rose from 64 per cent in 1969-1970 to 69 per cent in 1974. When account is taken of changes in prices, these bilateral flows to this group of countries were 20 per cent lower in 1974 than in 1969-1970. Countries in the *per capita* GNP range of $300-$800, on the other hand, experienced, in the aggregate, a slight decline in bilateral official development assistance receipts in absolute terms; if the increase in prices over this period is taken into account, the value of official development assistance flows to these countries in 1974 was only about one-half of that of such flows in 1969-1970.

26. It is against this background that a number of relatively more advanced developing countries have had recourse to private sources of capital, engaging essentially in the financing of development programmes by means of medium-term credits. This situation generally has led these countries to pursue a strategy of export-led growth, since a rapid advance in the purchasing power of export earnings, which minimizes any potential conflict between meeting debt-service payments and meeting the import requirements associated with rising output and standards of living, has been viewed as a primary indicator of a country's credit-worthiness. This pattern of development, and the viability of the external financial position of a developing country following such a pattern, therefore depend on a continual rapid expansion of the external purchasing power of exports and on the continued availability of private flows.

27. Beginning in 1974, however, the underlying conditions in the world economy for the success of this strategy began to disappear. The nature and consequences of these changes are examined in the following chapter.

## CHAPTER II

### *The external payments position of the developing countries in 1974-1976 and the evaluation of its significance*

28. The year 1974 witnessed a dramatic deterioration in the external financial position of developing countries. As may be seen from table 6, the aggregate current-account deficit of non-oil-exporting countries almost trebled, from $12.2 billion in 1973 to $33.5 billion in 1974. Present estimates indicate that the current-account deficit deteriorated by a further $12 billion in 1975, reaching a level of about $45 billion, while projections for 1976 show a narrowing in the deficit to $38 billion.

29. The components of the deterioration in the current-account deficit of non-oil-exporting developing countries in 1974 and 1975 are shown in table 6. As may be seen from that table, changes in the import bill of developing

countries attributable to increases in import prices played a significant role in the widening of the deficit in 1974; indeed, the negative effect of import prices alone was greater than the change in the deficit, this effect being offset by favourable developments in other areas, primarily the export performance of developing countries. The table also shows that the higher cost of petroleum imports constituted a major component of the deterioration in the current-account position in 1974. Increased prices of manufactured goods from OECD countries, however, also made a significant contribution of the higher import bill. Taking 1974 and 1975 together, table 6 indicates that increases in the prices of manufactures imported from OECD countries were as important a source of deterioration of the external accounts of non-oil-exporting developing countries as increases in the price of petroleum.

30. In 1975, the pattern of import price changes was rather different from what it had been in the previous year; petroleum price increases played a relatively minor role, and manufactures imported from OECD countries accounted for virtually the whole of the increase in imports that was due to higher prices. These more modest price effects, together with a decline in the volume of imports,

TABLE 6

**Factors accounting for the current-account deficits of non-oil-exporting developing countries and territories**

| | *1974* (*billion dollars*) | *1975* | *1974-1975* (*per cent*) |
|---|---|---|---|
| *Current-account deficit*[a] | 33.5[b] | 45.2 | |
| *Increase in deficit* attributable to: | 21.3 | 11.7 | 100.0 |
| 1. *Price changes*[c] | 14.3 | 17.5 | 96.4 |
| (*a*) Increase in import prices | 36.0 | 12.9 | 148.2 |
| (i) Oil | 18.5[d] | 1.9 | 61.8 |
| (ii) Food | 3.1 | –0.5 | 7.9 |
| Imports from OECD countries | (1.7) | (–0.3) | (4.2) |
| Imports from non-OECD countries | (1.4) | (–0.2) | (3.6) |
| (iii) Other primary commodities | 1.8 | –0.3 | 4.5 |
| Imports from OECD countries | (0.9) | (–0.2) | (2.1) |
| Imports from non-OECD countries | (0.9) | (–0.1) | (2.4) |
| (iv) Manufactures | 12.6 | 11.8 | 73.9 |
| Imports from OECD countries | (10.1) | (9.5) | (59.4) |
| Imports from non-OECD countries | (2.5) | (2.3) | 14.5 |
| (*b*) Decrease in export prices[e] | –21.7 | 4.6 | –51.8 |
| (i) Exports to OECD countries[e] | –15.6 | 3.3 | –37.3 |
| (ii) Exports to non-OECD countries[e] | –6.1 | 1.3 | –14.5 |
| 2. *Volume changes* | 7.5 | –9.8 | –7.0 |
| (*a*) Imports[f] | 10.2 | –8.4 | 5.5 |
| (i) From OECD countries[f] | 12.2 | –6.1 | 18.5 |
| (ii) From non-OECD countries[f] | –2.0 | –2.3 | –13.0 |
| Oil[f] | –3.0 | –1.0 | –12.1 |
| (*b*) Exports[e] | –2.7 | –1.4 | –12.4 |
| (i) To OECD countries[e] | –1.9 | –1.0 | –8.8 |
| (ii) To non-OECD countries[e] | –0.8 | –0.4 | –3.6 |
| 3. *Other factors, net*[g] | –0.5 | 4.0 | 10.6 |
| (*a*) Increase in non-factor service payments and private transfers | –1.9 | 1.6 | –0.9 |
| (*b*) Increase in net investment income payments | 1.4 | 2.4 | 11.5 |

*Source:* UNCTAD secretariat estimates.

[a] Based on data for 113 developing countries and territories.

[b] The corresponding figure in 1973 was $12.2 billion.

[c] Calculated by applying changes in prices to the volume of trade in the preceding year.

[d] All petroleum products imported in 1974 have been valued at 1974 prices. To the extent that oil was delivered to developing countries in 1974 at prices contracted for in 1973, this figure overstates the extent of the price effect.

[e] Increase = –.

[f] Decrease= –.

[g] Mainly attributable to trade with OECD countries.

held the import bill of non-oil-exporting developing countries in 1975 to levels only slightly higher than those reached in 1974. This favourable development was, however, offset by an unfavourable development as regards the export prices of these countries, which fell in 1975, there by contributing to the further widening of the current-account deficit.

31. In 1974, the financing of the enlarged deficit was accomplished, in retrospect, with relative ease. The period 1971-1973 had been marked by a distinctly favourable evolution of the ratio of the aggregate current-account deficit of non-oil-exporting developing countries to the means available to finance it. As is evident from table 7, in 1972 and 1973 the deficit on current account remained

TABLE 7

**The financing of the current-account deficits of 113 non-oil-exporting developing countries and territories, 1971-1974**

*(Million dollars)*

| | *1971* | *1972* | *1973* | *1974* |
|---|---|---|---|---|
| I. *Current account deficit* (balance on goods, services and private transfers) | −13 157 | −11 400 | −12 200 | −33 500 |
| II. *Long-term financing*, net | 10 904 | 13 885 | 22 179 | 28 581 |
| of which: | | | | |
| Official bilateral on official development assistance terms | 3 971 | 4 100 | 4 780 | 7 606 |
| DAC member countries | 3 464 | 3 609 | 3 712 | 4 590 |
| *Developing countries* | 507 | 491 | 1 068 | 3 106 |
| Other official bilateral | 588 | 668 | 1 523 | 2 332 |
| DAC member countries | 574 | 637 | 1 412 | 2 000 |
| Developing countries | 14 | 31 | 111 | 332 |
| Private flows from DAC member countries | 4 370 | 6 785 | 13 003 | 15 000 |
| Private overseas direct investment | 1 726 | 2 029 | 4 285 | 5 005 |
| Euro-currency | 1 000 | 2 100 | 500 | 1 495 |
| Export credits | 1 512 | 1 100 | 500 | 1 495 |
| Other | 132 | 1 556 | 2 618 | 2 000 |
| Multilateral institutions | 1 712 | 1 518 | 1 807 | 3 090 |
| On official development assistance terms | 1 030 | 853 | 1 078 | 1 862 |
| Other | 682 | 665 | 729 | 1 228 |
| of which, IMF oil facility | .. | .. | .. | 921 |
| Socialist countries of Eastern Europe[a] | 263 | 814 | 1 066 | 553 |
| III. *Payments financing* | | | | |
| Use of Fund credit | 67 | 326 | 174 | 1 363 |
| of which, IMF oil facility | .. | .. | .. | 921 |
| Changes in official reserves (− equals increase) | −1 835 | −5 496 | −8 103 | −2 333 |
| IV. *Short-term capital, unrecorded flows and errors and omissions* | 4 021 | 2 685 | −2 050 | 5 889 |

*Sources:* UNCTAD secretariat estimates based on OECD, *Development Co-operation* (Paris), various issues; IMF, *International Financial Statistics*, various issues; and information made available by the World Bank and the DAC secretariat.

*General note.* Tables 3, 4, 7 and 8 contain sub-headings identifying sources of financing which are, in a number of cases, identical. The definition of flows under each of these sub-headings has been determined by the requirements of each individual table, however, so that the volume of flows recorded under any given sub-heading may vary from table to table. Thus, tables 3 and 4, which provide a rather long time series, include financial flows to recipinets in southern Europe, since the geographical distribution of flows is not available for the early 1960s. Tables 7 and 8 exclude flows to southern European recipients and table 7 also excludes flows to members of OPEC. As, in table 7, flows have been arranged to show the way in which the current-account deficit has been financed, technical assistance grants have been excluded from the figures for bilateral official development assistance, since it is believed that the import of services financed by these transactions is rarely recorded in the current account. In table 7, disbursements by multilateral institutions to developing countries are measured net of subscriptions, contributions, participations and repayments by non-oil-exporting developing countries. In table 8, disbursements by DAC member countries and developing countries to multilateral institutions are measured net of repayments.

[a] Includes funds destined for oil-exporting developing countries. The figures are estimates by the UNCTAD secretariat on the basis of gross commitments and past terms estimated by the Centre for Development Planning, Projections and Policies of the Department of Economic and Social Affairs of the United Nations Secretariat.

stable, at a level below that recorded in 1971, while net long-term capital-account receipts grew rapidly, particularly in 1973. The resulting excess of capital-account receipts over the current-account deficit allowed a significant build-up of official reserve holdings to occur in both 1972 and 1973[11] In addition, whereas in 1971 and 1972 short-term capital, unrecorded flows and errors and omissions showed net inflows, in 1973 there was a build-up of assets (or reduction in liabilities) vis-à-vis the rest of the world on account of this category of transactions.

32. The increase in long-term financing in 1972 and 1973 was accounted for, in the main, by increased private lending; indeed, of the $8 billion increase in long-term financial flows, somewhat more than $6 billion was accounted for by private capital flows. Non-concessional official lending also rose steeply. It is likely that the spurt in private and official lending on commercial terms was induced by the rapid growth in the exports of developing countries in these two years, which increased their creditworthiness, and by the expansion of liquidity in developed market-economy countries in the course of the economic upswing.

33. The fact that long-term borrowing had surpassed to a significant extent the current-account deficit in the previous year allowed developing countries to deal with their external financial situation in 1974 by reducing the rate of reserve accumulation; roughly 27 per cent of the increase in the deficit was financed in this way. Indeed, the reduced rate of reserve accumulation, together with changes in short-term capital flows, unrecorded and errors and omissions, covered roughly 64 per cent of the increase in the deficit.[12] Nevertheless, the fact that non-oil-exporting developing countries, taken as a group, were able to cover their substantial deficit, while continuing to accumulate reserves in nominal terms (although at a slow rate), cannot be explained without reference to a sharp increase that took place in 1974 in official development assistance, in other official bilateral flows and in lending by multilateral institutions.

34. It is worthy of note that developments in 1974 also had a noticeable impact on the structure of the flow of funds into the system of international financial co-operation. As is evident from table 8, in 1974 the oil-exporting developing countries constituted the most significant source of expansion in the flow of funds. Bilateral flows from these countries on concessional terms rose from an average of about $680 million in 1972-1973 to around $3 billion in 1974. Almost all of this increase, however, was directed towards a few countries in and around the Middle East. In addition, in 1974 oil-exporting developing countries outstripped the developed market-economy countries as a source of funds for regular lending by multilateral institutions and provided the bulk of the financing for the IMF oil facility.[13] Thus, of the $5.7 billion increase in the flow of financial resources in 1974, over 80 per cent originated in oil-exporting developing countries (excluding money recycled through the Euro-dollar market) and the contribution of such countries to the flow of financial resources to developing countries and multilateral institutions rose from 3 per cent in 1971-1973 to 16 per cent in 1974, that of the DAC member countries falling from 93 per cent to 83 per cent.

35. The additional finance generated in 1974 did not spring entirely automatically from the workings of the international monetary and financial system, but came in response to deliberate national and international policies designed to deal with what was a critical short-term situation (thought to be temporary).[14] These deliberate policies, however, resulted in additional flows that covered only a relatively small proportion of the increase in the deficit.

36. The picture for 1974 that emerges in thus one of exceptionally large deficits cuased by disturbances in the international economy and financed mainly out of "fat" in the external accounts of the non-oil-exporting developing countries and to a lesser extent by conscious international co-operation in which the developing countries themselves played a major role as a source of additional funds. Although the year was marked by considerable uncertainty, and by a great deal of innovation affecting the international circuits for the flow of capital, financing required to cover the deficits of the non-oil-exporting developing countries was forthcoming, in particular, from private markets. Developing countries made net recourse to private credit markets for some $19 billion (see table 9), and their non-concessional debt must be assumed to have grown by a roughly equivalent amount. These magnitudes proved sufficient to maintain some advance in the volume of imports, and the growth in GNP of the non-oil-exporting developing countries is estimated to have been around 5 per cent.

37. The problem of dealing with the deficit in 1975 proved considerably more troublesome than in 1974. In the first place, as mentioned above, the deficit was kept down through a reduction in import volumes, but this can be expected to have had a negative impact on growth in these countries. Preliminary estimates indicate that a considerably smaller proportion of the deficit was financed by concessional funds in 1975 than in 1974 (see table 9). Moreover, although the financing of the 1974 deficit was consistent with some increase in international reserves,

[11] The reserve increase in 1972 reflects, in part, allocations of SDRs.

[12] The rise in short-term borrowing by non-oil-exporting developing countries was reportedly related directly to the difficulties of these countries in obtaining medium and long-term private credits (see International Finance Corporation, *1975 Annual Report,* p. 3).

[13] The oil facility was established in 1974 as a temporary means of financing the oil deficits of IMF members on terms involving commercial interest rates and medium-term maturities. For additional information, see "International financial co-operation for development – Past performance and future requirements: report by the UNCTAD secretariat" (TD/B/C.3/126/Add.1 and Corr.1).

[14] Around $1.3 billion in emergency assistance was channelled to the most seriously affected countries within the context of the United Nations Emergency Operation, and $0.90 billion was lent by IMF to the developing countries through its oil facility.

TABLE 8

**The sources of funds entering the system of international financing co-operation: net disbursements, 1971-1974**

*(Million dollars)*

| | *1971* | *1972* | *1973* | *1974*[a] |
|---|---|---|---|---|
| *Total* | 17 954 | 21 972 | 32 617 | 38 275 |
| Sources: | | | | |
| *DAC member countries*[b] | 17 057 | 20 463 | 30 068 | 31 593 |
| Official development assistance | 6 136 | 6 358 | 6 905 | 8 160 |
| Other official | 801 | 982 | 1 873 | 1 900 |
| Private | 7 746 | 10 153 | 18 375 | 18 559 |
| Private overseas direct investment | 3 677 | 3 905 | 5 818 | 6 721 |
| Euro-currency | 1 000 | 3 098 | 8 014 | 7 116 |
| Export credits | 2 361 | 1 374 | 1 045 | 2 242 |
| Other | 708 | 1 776 | 3 498 | 2 480 |
| *via* Multilateral institutions | 2 374 | 2 970 | 2 915 | 2 974 |
| Terms similar to those for official development assistance | 1 338 | 1 917 | 2 268 | 3 060 |
| Other official | 266 | 386 | 390 | −16 |
| Private | 770 | 667 | 257 | −70 |
| *Socialist countries*[c] | 263 | 814 | 1 066 | 553 |
| *Developing countries* | 634 | 695 | 1 483 | 6 129 |
| Official bilateral on terms similar to those for official development assistance | 507 | 491 | 1 068 | 3 016 |
| Other official | 14 | 31 | 111 | 332 |
| *via* Multilateral institutions | 113 | 173 | 304 | 2 781 |
| Terms similar to those for official development assistance | 20 | 25 | 9 | 416 |
| Other | 93 | 148 | 295 | 2 365 |
| of which, IMF oil facility | .. | .. | .. | 921 |

*Source:* UNCTAD secretariat estimates, based on OECD, *Development Co-operation* (Paris), various issues, and information made available by the World Bank and the DAC secretariat.

NOTE. See general note, table 7.

[a] Estimated.

[b] Includes funds destined for south European recipient countries and territories.

[c] Figures for the socialist countries are estimates by the UNCTAD secretariat on the basis of gross commitments and past terms estimated by the Centre for Development Planning, Projections and Policies of the Department of Economic and Social Affairs of the United Nations Secretariat.

reserves appear to have declined by around $2 billion in 1975. Recourse by non-oil-exporting developing countries to private credit in that year consequently appears to have risen to around $25 billion, a figure of unprecedented magnitude. By the end of 1975, however, it had become increasingly evident that the relative ease with which developing countries had had access to financing from private capital markets was coming to an end. Indeed, press reports to the effect that certain developing countries had reached their credit ceilings with individual private credit institutions became increasingly frequent.

38. The present outlook for 1976 is for a further reduction in the volume of imports from 1975 levels. The total recourse of developing countries to private capital in that year is projected to be substantially reduced from the estimated 1975 levels. The call on private markets, however, should still lie in the neighbourhood of $16 billion, an order of magnitude roughtly comparable to that for 1974. The question arises whether, with the exhaustion of credit lines that may have occurred in 1975 and the emergence of an increased credit demand in developed countries that can be expected to accompany an upturn of economic activity in those countries, private financing of this order of magnitude will be forthcoming. If it is not, the reduction of the volume of imports and of growth in non-oil-exporting developing countries could be substantial.

39. The lack of adequate balance-of-payments finance thus constitutes a grave danger to the growth of developing countries and to the attainment of the objectives of the Second United Nations Development Decade. This danger has indeed not gone unnoticed. Thus, the Executive Directors of IMF, meeting in the later months of 1975, agreed on a liberalization of the Fund's compensatory financing facility.[15]

[15] For a full description of the revised CFF, see the report by the UNCTAD secretariat entitled "International monetary issues: problems of reform" (TD/189), reproduced below.

TABLE 9

**Financing of the external deficit of non-oil-exporting developing countries and territories: 1974 and estimates for 1975 and 1976**

*(Billion dollars)*

| | | *1974* | *1975*[a] | *1976*[b] |
|---|---|---|---|---|
| | Current-account deficit. . . . . . . | 33.5 | 45.2 | 38.3 |
| | *Financed by:* | | | |
| I. | Long-term financing on soft terms (bilateral and multilateral) . . . . . | 9.5 | 10.0 | 11.0 |
| II. | Multilateral regular lending. . . . . | 1.2 | 1.5 | 2.0 |
| III. | Private foreign investment . . . . . | 5.0 | 4.8 | 4.8 |
| IV | Use of IMF credit. . . . . . . . . . | 1.3 | 1.8 | 1.2 |
| | of which, IMF oil facility . . . | 0.9 | 1.5 | — |
| V. | Changes in official reserves (– equals increase) . . . . . . . . . | –2.3 | 2.0 | 3.0 |
| VI. | Other credits[c] . . . . . . . . . . . . | 18.8 | 25.0 | 16.3 |

*Source:* Estimates by the UNCTAD secretariat for 113 countries and territories.

[a] Preliminary.

[b] Projections.

[c] Includes short-term credits plus errors and omissions.

40. A compensatory financing facility, to be adequate, must fulfil three fundamental conditions. First, it must be endowed with adequate resources to provide compensation in cases of widespread shortfalls experienced in the international trade cycle. Further, the criteria for allocating these resources must be realistically related to the severity of acountry's export shortfalls, rather than be based on unrelated quota ceilings. Second, the formula used to measure shortfalls and surpluses must be consistent with the over-all objective of stabilizing import capacity, in so far as it relates to export earnings. Thus, such a formular must trace the medium-term rate of growth of export earnings with reasonable accuracy, and at the same time take into account the behaviour of import prices. Third, the terms of repayment must be of sufficient flexibility to take into account the pattern of export shortfalls and surpluses being experienced by each participating country. Without such flexibility, the required close relationship between shorfalls and net drawings could be considerably weakened, and thus the ability of the facility to achieve its goal of stabilizing import capacity would be severely limited.

41. In judging the efficacy of a particular facility, such as that of IMF, the method used to measure shortfalls in export earnings assumes critical importance. The adequacy of the financial resources can be determined only in comparison with the likely magnitude of the needs of the participating countries. For example, the revised method now used by IMF is apparently intended to stabilize export earnings around a medium-term trend based on the actual growth of a country's exports. However, it is still susceptible to distortions due to varying rates of inflation. Further, it takes no account of the movement of import prices, which is a crucial determinant of import capacity and thus of the over-all balance-of-payments situation.

42. To provide a standard of comparison, table 10 contains estimates by the UNCTAD secretariat of shortfalls based on an alternative formula, designed to measure import capacity directly. The shortfall is computed as the difference between the expected export earnings, adjusted for changes in import prices, and actual export earnings. Expected export earnings are taken to be the average earnings in the two pre-shortfall years, reflated by current import prices, export volume being assumed to grow at the same rate as the trend in the volume growth of world exports over the most recent six years. The world rate of growth of exports is used, rather than the country rate of growth, to avoid unduly benefiting countries enjoying extraordinary rates of export growth, as well as to avoid penalizing those with stagnating export earnings. Thus, the formula would indicate shortfalls warranting compensation whenever a change occurred in import capacity that was due to fluctuations in volume, export prices or import prices.

TABLE 10

**Estimated export shortfalls for non-oil-exporting developing countries, 1968-1977**[a]

*(Billion dollars)*

| | *Estimates based on:* | | |
|---|---|---|---|
| *Year* | *Revised IMF method*[b] | *Alternative formula*[c] | *Difference* |
| | *(1)* | *(2)* | *(3) (= (2) – (1))* |
| 1968 . . . . . . . . . . . | 0.5 | 2.5 | –2.0 |
| 1969 . . . . . . . . . . . | –1.9 | 0.4 | –2.3 |
| 1970 . . . . . . . . . . . | –2.0 | 1.1 | –3.1 |
| 1971 . . . . . . . . . . . | 2.3 | 6.5 | –4.2 |
| 1972 . . . . . . . . . . . | –1.2 | 1.9 | –3.1 |
| 1973 . . . . . . . . . . . | –11.2 | –8.2 | –3.0 |
| 1974 . . . . . . . . . . . | –8.9. | 4.6 | –13.5 |
| 1975 . . . . . . . . . . . | 21.2 | 22.1 | –0.9 |
| 1976 . . . . . . . . . . . | 20.0 | 7.5 | 12.5 |
| 1977 . . . . . . . . . . . | 2.2 | –6.3 | 8.5 |

Note. A minus sign indicates an export surplus.

[a] Underlying trade figures are based on UNCTAD secretariat projections.

[b] Applicable from January 1976. The shortfall is calculated as follows:

$$SF = 1/5\left\{\left[VX_{t-2}+VX_{t-1}+VX_t+ \left[(VX_{t-2}+VX_{t-1})\right]\right.\right.$$
$$\left.\left.(VX_{t-2}+VX_{t-1}+VX_t)/VX_{t-5}+VX_{t-4}+VX_{-3} -VX_t\right]\right\}$$

were $SF$ = shortfall, $VX$ = value of exports and $t$ = shortfall year.

[c] See text, para. 42. The formula is as follows:

$$SF = \tfrac{1}{2}\left[VX_{t-2}/PM_{t-2}+VX_{t-1}/PM_{t-1}\right] \cdot \left[(1+g^{3/2}\cdot PM_t -VX_t\right]$$

where $g$ = rate of the trend in the growth of the volume of world exports over the period from $t-5$ to $t$, $PM$ = unit value index of imports, $SF$ = shortfall, $VX$ = value of exports, and $t$ = shortfall year.

43. Examination of these estimates shows that the revised IMF method gives results that diverge significantly from those obtained by the alternative formula. Since the IMF method is based solely on trends in nominal export earnings, it tends to overestimate shortfalls during periods

of decelerating inflation and to under-estimate them during periods of accelerating inflation. For example, in 1974, when price increases were significantly faster than in the previous year, the result of applying the IMF method deviates by $13.5 billion from that of applying the alternative formula. On the other hand, in the projection for 1976 it deviates in the opposite direction by $12.5 billion, again primarily because 1976 is expected to be a year of significantly lower rates of price increase than either of the two preceding years.

44. None the less, both methods measure the shortfall in 1975 alone as being in excess of $20 billion. The total shortfall for the period 1974-1976 is estimated to be $34.2 billion on the basis of the alternative formula, while the IMF method gives a somewhat higher estimate of $41.2 billion. In contrast, the compensatory financing facility of IMF, on the basis of the revised ceilings, has available a maximum of only $5.6 billion, equal to only 16 per cent of the estimated 1974-1976 shortfall according to the alternative formula. Thus, had the revised ceilings been in effect in 1974, the maximum drawing of $3.7 billion would have covered about 80 per cent of the shortfall in that year as estimated by the alternative formula. This would have left some $1.9 billion in 1975 to cover a shortfall of $22.1 billion and nothing in 1976 to cover a projected shortfall of $7.5 billion. This, it is clear that the IMF facility does not have the resources to make a significant contribution to the current balance-of-payments difficulties of the developing countries. This conclusion would not be substantially altered if shortfalls were measured by the IMF method.

45. It is clear from the magnitude of the current and projected export shortfalls that a substantial reconsideration of the appropriate nature of a compensatory financing facility is needed. In the ordinary course of events, perhaps the enlarged IMF facility would be tenable. However, when international trade cycles impose shortfalls on the majority of trading countries simultaneously, new ways of providing for adequate funds for such a facility must be found.

46. Recent experience also suggests that the dynamics of the international economy are such that the purchasing power of exports for developing countries as a whole may decline in relation to the volume of world trade. Indeed, such medium and long-term declines may be aggravated by severe trade cycles. Such considerations imply that the financing of a CFF must be significantly improved. As a minimum, it must be on a sufficiently long-term basis, with repayment linked to export performance.

## CHAPTER III

## *Debt and debt service*

### A. Background

47. Debt and debt service have an important bearing on the net transfer of resources to developing countries and, therefore, on the efficacy of donor programmes under international financial co-operation arrangements. The effect of debt-service payments on net transfers varies according to the class of transaction involved. Because developing countries make use, to different degrees, of various categories of transactions, these differences also lead to a varied influence of debt on net transfer for various categories of countries.

48. In the tables and paragraphs which follow, use has been made of information compiled by the World Bank in its Debtor Reporting System. The Debtor Reporting System provides data on the external public debt of developing countries, which is defined as "debt repayable to external creditors in foreign currency, goods or services, with an original or extended maturity of more than one year, which is a direct obligation of, or has repayment guaranteed by, a public body in the borrowing country".[16] The information collected by the World Bank thus does not cover private transactions which take place without benefit of a public guarantee in the debtor country, or transactions giving rise to short-term debt.

49. Gross disbursements to 86 developing countries grew at an average annual rate of 13 per cent during the period 1965-1973 and amounted to $24 billion in the latter year.[17] However, in the same period debt-service payments grew by 16 per cent annually, reaching $11 billion. The consequence of these differential rates of growth was that the net transfer of resources advanced by only 10 per cent annually during the period, amounting to $13 billion in 1973, or a little more than one-half the amount of new disbursements. When account is taken of price increases for goods and services made available to developing countries, the annual growth of the transfer was of the order of 3 per cent. Over the same period, outstanding debt, including debt undisbursed, grew at an average annual rate of 15 per cent, reaching $119 billion by the end of 1973.

50. Detailed data on debt service and disbursements are available for a smaller sample of countries. As may be seen from table 11, the rates of growth of disbursements and debt service for 67 non-oil-exporting developing countries varied considerably for different types of transactions. Disbursements of official loans and grants grew at an average annual rate of 8 per cent from 1965 to 1973, while debt-service payments resulting from official loans grew at an average annual rate of 15 per cent. Consequently, the net transfer was at the modest growth rate of 5.5 per cent per annum, rising from $2.9 billion in 1965 to $4.5 billion in 1973. Disbursements of private loans grew considerably more rapidly over the period than did other types of transaction. Disbursements by private banks rose particularly sharply, and outpaced the rate of growth of debt service associated with such loans. Consequently, the net transfer associated with this type of transaction rose sharply, reaching $2.8 billion in 1973. It should be noted, however, that the rapid expansion of bank lending to the developing countries is of relatively recent origin; the average annual rate of expansion was 53 per cent from

[16] For further details on definitions and coverage, see annex II, para. 4, below.

[17] For further details of the indebtedness of developing countries, see annex II below.

TABLE 11

**Gross disbursements, debt service and net transfer by type of transaction for 67 non-oil-exporting developing countries, 1965 and 1973**

*(Million dollars)*

| Type of transaction | Disbursements | | Debt service | | Net transfer | |
|---|---|---|---|---|---|---|
| | *1965* | *1973* | *1965* | *1973* | *1965* | *1973* |
| *Total* | 5 726 | 16 281 | 2 227 | 7 751 | 3 499 | 8 530 |
| Of which | | | | | | |
| *Official bilateral* | 3 620 | 6 786 | 719 | 2 301 | 2 901 | 4 485 |
| of which DAC | 3 451 | 6 311 | 626 | 2 004 | 2 825 | 4 307 |
| *Multilateral* | 728 | 2 057 | 331 | 977 | 397 | 1 080 |
| *Private:* | | | | | | |
| suppliers' credits | 571 | 1 312 | 587 | 1 417 | –16 | –105 |
| private banks | 546 | 4 849 | 417 | 2 081 | 129 | 2 768 |
| other private | 255 | 1 201 | 173 | 813 | 82 | 388 |

*Source:* Annex II below, table II.2.

1970 to 1973. Given the maturity of such credits, the growth of such disbursements in the period under review has resulted in a roughly equivalent rise in net transfer. In subsequent years, as repayments fall due, the rate of advance of net transfer may be expected to fall, even if gross disbursements were to grow at recent rates.

51. Not all developing countries have the same access to the different types of flows mentioned above, nor do all countries with equal access to certain types of funds necessarily receive equivalent amounts of those funds. Consequently, the growth of disbursements, debt service and net transfer varies considerably among groups of countries. As may be seen from table 12, countries with a *per capita* GNP of $201-$300 experienced a particularly rapid advance in debt-service payments from 1965 to 1973, leading to a virtual stagnation in the level of net transfer. Countries with a *per capita* GNP in the $301-$400 range alos experienced a rapid increase in debt service, which kept the rate of growth of net transfer to modest levels. Countries with a *per capita* GNP of $401 and above, which have been the major beneficiaries of the expanded flow of private lending, experienced rapid increasses in debt service, leading to significant growth of net transfers. As a result, over one-half of the recorded net transfer in 1973 was directed towards those countries.

52. In addition to their effect on net transfer, debt-service payments also have a bearing on the short-run balance-of-payments position of debtor countries. Debt-service payments constitute a sizeable element in the external payments of developing countries. Moreover, such payments are determined according to a fixed schedule, which does not take into account changes in a country's balance-of-payments situation. Consequently, given present policies on debt and debt service, debt-service payments cannot play a role in adjusting a country's balance-of-payments deficit.

TABLE 12

**Gross disbursements, debt service and net transfer for 67 non-oil-exporting developing countries according to income group, 1965 and 1973**

*(Million dollars)*

| | Disbursements | | Debt service | | Net transfer | |
|---|---|---|---|---|---|---|
| | *1965* | *1973* | *1965* | *1973* | *1965* | *1973* |
| *Total (67 countries)* | 5 726 | 16 281 | 2 227 | 7 751 | 3 499 | 8 530 |
| Countries with *per capita* GNP in 1972 of: | | | | | | |
| $100 or below | 287 | 1 422 | 8 | 156 | 279 | 1 266 |
| $101-$200 | 1 672 | 2 437 | 422 | 1 034 | 1 250 | 1 403 |
| $201-$300 | 618 | 1 019 | 119 | 503 | 499 | 516 |
| $301-$400 | 591 | 1 480 | 186 | 687 | 406 | 793 |
| $401-$800 | 1 209 | 4 235 | 360 | 1 948 | 849 | 2 287 |
| $801 and above | 1 350 | 5 689 | 1 134 | 3 424 | 216 | 2 265 |

*Source:* Annex II below, table II.1.

53. This characteristic of debt-service payments has become particularly significant in the current situation. As mentioned in paragraph 28 above, developing countries as a whole had a current-account deficit in 1974 of some $33.5 billion, and one of their major preoccupations since has been to secure the means of financing in the future a deficit of this size. Inflexibility in the scheduling of debt-service payments has meant that this category of transaction has had to be excluded from the consideration of the means by which the increased deficits might be financed.[18]

54. The significance of debt-service payments in relation to the increased current-account deficits of non-oil-exporting developing countries may be seen from table 13, which indicates that for a sample of 55 such countries debt-service payments in 1974 corresponded to 41 per cent of the increase in their combined current-account deficit. Admittedly, the figure of 41 per cent represents the maximum by which flexibility in the timing of debt-service payments could have contributed to financing the increment in the current-account deficit. Even so, it would have been necessary for all debt-service payments due in 1974 to be postponed; likewise, it is assumed that such postponement would have no effect on the inflow of new capital. Nevertheless, the figures in table 13 do provide a rough indication of the possibilities that existed for financing the increase in the current-account deficit of developing countries in 1974 by providing for flexibility in the timing of debt-service payments.

55. In the event, such flexibility was not forthcoming. As was shown in table 7, only 28 per cent of the external deficit of non-oil-exporting developing countries in 1974 could be covered by bilateral official development assistance and concessional flows from multilateral institutions. Consequently, a substantial part of the $33.5 billion deficit was financed either by direct investment or by recourse to credits bearing commercial interest rates, and, as already mentioned, the financing of the 1975 deficit from private sources appears to have been even greater.

56. These developments in 1974 and 1975 have serious implications for the external solvency of non-oil-exporting developing countries in 1976 and 1977. Current projections indicate that there may be some slight reduction in their current-account deficit in 1976. This deficit none the less appears likely to fall in the range of $35-$40 billion (see also table 9), an order of magnitude that was until recently without precedent. Projections for 1977 indicate a deficit of similar size. Moreover, the acceleration of short and medium-term borrowing that occurred in the early 1970s will lead to an even sharper acceleration of debt-service payments. It thus seems likely that for non-oil-exporting developing countries as a whole the ratio of debt service on public and publicly-guaranteed debt to the export of goods will rise from a level of 11 per cent in 1974 to 18 per cent in 1976 and 21 per cent in 1977. Moreover, when rough account is taken of estimated debt service on credits not covered by the World Bank's Debtor Reporting System, it would appear that these ratios will reach 26 per cent and 29 per cent respectively.

57. The developments in 1974 and 1975 and the outlook for 1976 and 1977 (see chap. II above) affect individual developing countries in varying degrees. It is clear, however, that the external financial position of a large number of developing countries has been worsened by these developments and that difficulties in servicing external debt have become acute and will become even more acute in the future. The question therefore arises whether international measures are required on a large scale to deal with a common problem afflicting a large number of developing countries.

## B. Proposals for a broad approach to debt problems in the current situation

### 1. *Proposals relating to private debt*

58. It has been proposed that an international fund be established that will have the function of refinancing for a certain period of time the service payments on the commercial debt of developing countries having an original maturity of from one to ten years. The refinancing would take place at commercial rates of interest and would not involve concessional funds.

59. The refinancing of service payments on commercial debt in this way would have a twofold effect on the external financial situation of developing countries. First, it would alleviate their immediate balance-of-payments difficulties by reducing the amount of debt-service payments that had to be made during the period that the scheme was in operation. Second, it would widen the maturity structure of commercial debt outstanding, thereby improving the general structure of external indebtedness of developing countries.

60. Suppliers' credits provided by financial institutions in developed countries and loans from private banks are the two major sources of private credits with medium-term maturities. The consequences of a scheme to refinance debt-service payments arising from these two categories of loans are indicated in table 14. As may be seen from that table, the refinancing during the three-year period 1974-1976 of debt-service arising from these two categories of loans would involve consolidated payments amounting to $14.4 billion. This sum represents 47 per cent of the total projected debt-service payments during that three-year period and on an annual basis corresponds to approximately one-fifth of the increment in the current-account deficit of developing countries in 1974. The projected amortization payments on these two categories of debt equal $9.5 billion, or roughly 11 per cent of the total outstanding debt of developing countries in 1973. However, as much as 40 per cent of the outstanding debt arising from suppliers' credits and private bank loans would have been funded into loans bearing decidedly longer maturities. As

[18] For a small number of countries, debt rescheduling did affect the magnitude of debt-service payments in 1974. These agreements had, however, been concluded prior to 1974, and the rescheduling did not, therefore, respond directly to the extraordinary situation that emerged in that year.

TABLE 13

**Current-account balances and debt-service payments for 55 non-oil-exporting developing countries, 1973 and estimates for 1974**

*(Million dollars)*

| | *Exports* | *Imports* | *Trade balance* | *Current-account balance*[a] | *Debt-service payments*[b] | *Ratio of debt-service payments in 1974 to increase in current-account deficit (per cent)* |
|---|---|---|---|---|---|---|
| *Africa*[c] | | | | | | |
| 1973 | 6 650 | 7 185 | −535 | −876 | 572 | |
| 1974 | 9 407 | 11 273 | −1 866 | −1 755 | 796 | 91 |
| *East Asia*[d] | | | | | | |
| 1973 | 13 231 | 15 714 | −2 483 | −374 | 725 | |
| 1974 | 19 642 | 25 959 | −6 317 | −3 696 | 867 | 26 |
| *South Asia*[e] | | | | | | |
| 1973 | 4 265 | 4 611 | −346 | −740 | 871 | |
| 1974 | 5 559 | 7 466 | −1 907 | −2 717 | 1 167 | 59 |
| *Middle East*[f] | | | | | | |
| 1973 | 1 949 | 5 458 | −3 509 | −1 231 | 482 | |
| 1974 | 2 500 | 7 222 | −4 722 | −2 578 | 612 | 45 |
| *Southern Europe*[g] | | | | | | |
| 1973 | 10 994 | 19 079 | −8 085 | 739 | 1 122 | |
| 1974 | 14 603 | 29 372 | −14 769 | −5 924 | 1 248 | 19 |
| *Latin America*[h] | | | | | | |
| 1973 | 19 162 | 20 937 | −1 775 | −2 837 | 3 752 | |
| 1974 | 25 943 | 35 754 | −9 811 | −11 048 | 4 592 | 56 |
| Total (55 countries) | | | | | | |
| 1973 | 56 424 | 73 435 | −17 011 | −5 397 | 7 532 | |
| 1974 | 77 812 | 117 453 | −39 641 | −27 808 | 9 289 | 41 |

*Source:* UNCTAD secretariat, based on information supplied by the World Bank and IMF.

[a] Excluding interest payments on public and publicly-guaranteed debt.

[b] Payments on public and publicly-guaranteed debt, as reported by the World Bank.

[c] Central African Republic, Ethiopia, Ghana, Ivory Coast, Kenya, Madagascar, Malawi, Mali, Mauritius, Morocco, Senegal, Sierra Leone, Somalia, Sudan, Togo, Tunisia, Uganda, United Republic of Tanzania, Upper Volta and Zaire.

[d] Republic of Korea, Malaysia, Philippines, Singapore and Thailand.

[e] India, Pakistan and Sri Lanka.

[f] Israel and Lebanon.

[g] Cyprus, Greece, Malta, Spain, Turkey and Yugoslavia.

[h] Argentina, Bolivia, Brazil, Chile, Colombia, Costa Rica, Dominican Republic, El Salvador, Guatemala, Guyana, Haiti, Honduras, Jamaica, Mexico, Nicaragua, Panama, Paraguay, Peru and Uruguay.

may be seen from table 14, a refinancing scheme operating for a five-year period would have even more pronounced effects on the external situation of developing countries.

61. Table 14 also shows that the main effects of the scheme to refinance debt service arising from these two categories of transactions would be felt by countries with a *per capita* GNP of $376 and above. The benefits to these countries of such a scheme would be $11.1 billion, or 77 per cent of the total refinancing available to developing countries.

62. The figures set out in table 14 also provide estimates of the financial requirements of such a scheme. In considering these requirements, it should be noted that the techniques of refinancing debt payments allow considerable scope for flexibility. Thus, it would be possible to envisage a scheme in which only a certain proportion of debt-service

TABLE 14

**Projected debt-service payments on debt outstanding at the end of 1973 for 67 non-oil-exporting developing countries**

*(Billion dollars)*

| | Period | |
|---|---|---|
| | *1974-1976 (3 years)* | *1974-1978 (5 years)* |
| *Suppliers' credits: debt-service payments* | 5.2 | 7.7 |
| of which | | |
| Amortization payments | 4.1 | 6.0 |
| *Private banks: debt-service payments* | 9.2 | 15.3 |
| of which | | |
| Amortization payments | 5.4 | 9.3 |
| *Suppliers' credits + private banks: debt-service payments* | 14.4 | 23.0 |
| of which | | |
| Countries with *per capita* GNP in 1972 of: | | |
| $376 and above | 11.1 | 17.9 |
| $375 and below | 3.3 | 5.1 |
| of which | | |
| less than $200 | 1.2 | 1.8 |
| the most seriously affected countries | 1.1 | 1.8 |
| the least developed countries | 0.1 | 0.4 |
| *Suppliers' credits + private banks: amortization payments* | 9.5 | 15.3 |
| of which | | |
| Countries with *per capita* GNP in 1972 of: | | |
| $376 and above | 7.0 | 11.4 |
| $375 and below | 2.5 | 3.9 |
| of which | | |
| less than $200 | 0.9 | 1.5 |
| the most seriously affected countries | 0.9 | 1.4 |
| the least developed countries | 0.2 | 0.2 |

*Source:* UNCTAD secretariat, based on information supplied by the World Bank.

payments due on certain categories of debt was refinanced. If, for example, it were decided to refinance one-half of the amortization or debt-service payments owed on account of suppliers' credits and private bank loans, the cost of the scheme would be one-half of the amounts shown in the table.

63. The purpose of a refinancing scheme is not to increase the total flow of resources to developing countries over the longer term but rather to adjust the annual pattern of the flow. Consequently, refinancing will have the effect of lowering debt-service payments during the period of operation of the scheme, at the cost of raising them during the subsequent period. Table 15 shows the projected annual debt-service payments for the period 1974-1980, after hypothetical refinancing, as a percentage of the annual payments that would have been due without refinancing. It is assumed that amortization payments on suppliers' credits and private bank loans would be refinanced during the period 1974-1976 by new loans having terms of 9 per cent interest, a three years' grace period and 15 years' maturity. As may be seen from the table, assuming such refinancing, total annual debt-service payments on debt outstanding when the scheme was initiated would be reduced by roughly 25 per cent during the period in which the scheme operates, and raised by about 15 per cent during the subsequent period.

## 2. *Proposals relating to official debt*

64. It has been proposed that debt-service payments on official loans to the most seriously affected countries should be waived for the remainder of the decade and that consideration should be given to the possibility of converting official development assistance debt owed by the least developed countries into grants.

65. It has also been suggested that debt-service payments on official loans to all developing countries might be waived for the remainder of the decade.

66. For a sample of 67 developing countries, debt-service payments on account of official bilateral flows from DAC member countries are expected to average at least $2.6 billion annually during the period 1974-1979 (see table 16). This is approximately 20 per cent of the projected debt-service payments of these countries in 1976.

TABLE 15

**Annual debt-service payments of 67 non-oil-exporting developing countries, 1974-1980, after hypothetical refinancing of amortization payments on commercial debt[a] as a percentage of annual payments due in the absence of refinancing**

*(Percentages)*

| | *1974* | *1975* | *1976* | *1977* | *1978* | *1979* | *1980* |
|---|---|---|---|---|---|---|---|
| *Total (67 countries)* | 71.6 | 74.4 | 77.4 | 110.9 | 113.7 | 116.6 | 117.5 |
| of which | | | | | | | |
| Countries with *per capita* GNP in 1972 of: | | | | | | | |
| $376 and above | 69.7 | 72.2 | 75.0 | 111.9 | 114.7 | 118.1 | 119.4 |
| $375 and below | 75.5 | 79.2 | 82.5 | 108.9 | 111.2 | 113.5 | 113.8 |
| of which | | | | | | | |
| under $200 | 84.4 | 85.7 | 87.2 | 106.0 | 107.7 | 109.7 | 109.9 |
| the most seriously affected countries | 84.8 | 87.4 | 89.4 | 105.5 | 107.0 | 108.6 | 108.6 |
| the least developed countries | 87.5 | 87.9 | 89.4 | 104.4 | 105.6 | 107.1 | 107.1 |

*Source:* UNCTAD secretariat, based on information supplied by the World Bank.

[a] Amortization payments on suppliers' credits and private bank loans outstanding at the end of 1973 were assumed to be refinanced during the following three years by new loans with terms of 9 per cent interest, a three-years' grace period and 15 years' maturity.

TABLE 16

**Average annual gross disbursements of official bilateral loans from DAC member countries, 1971-1973, to 67 non-oil-exporting developing countries, and average annual debt-service payments on such loans**

*(Million dollars)*

| | *1971-1973* | | *1974-1979*[a] |
|---|---|---|---|
| | *Disbursements* | *Debt service* | *Debt service* |
| *Total (67 countries)* | 5 524 | 1 507 | 2 557 |
| of which | | | |
| Countries with *per capita* GNP in 1972 of: | | | |
| $376 and above | 1 758 | 704 | 1 313 |
| $375 and below | 3 776 | 803 | 1 245 |
| of which | | | |
| under $200 | 2 454 | 488 | 776 |
| the most seriously affected countries | 2 471 | 503 | 809 |
| the least developed countries | 746 | 44 | 88 |

*Source:* UNCTAD secretariat, based on information supplied by the World Bank.

[a] Projected on the basis of debt outstanding at the end of 1973.

67. The most seriously affected countries accounted in 1971-1973 for roughly one-third of debt-service payments to DAC member countries on account of official bilateral flows. During that period, approximately 43 per cent of these debt-service payments was on account of official bilateral debt. In 1974, it is estimated that their debt-service payments to DAC member countries were about $715 million, and that a moratorium on such payments in 1974 would have provided these countries with additional financing equivalent to 15.5 per cent of the increase in their current-account deficit. It is further estimated that a moratorium on debt-service payments on official bilateral debts owed to DAC member countries would reduce the aggregate debt-service ratio for the most seriously affected countries in 1976 from about 13 per cent to about 7 per cent.

68. The known distribution among the most seriously affected countries of debt-service payments due on bilateral official debt is shown in table 17, where it may be seen that 26 such countries account for $281 million, or 29 per cent, of projected debt-service payments on official loans for the period 1974-1979. These payments represent 15 per cent of the total net transfer of resources to these countries in 1973 and 20 per cent of the net transfer effected by official bilateral grants and loans in that year. The remaining 71 per cent of projected debt-service payments on official loans is due from India and Pakistan. These sums represent 77 per

TABLE 17

**Projected annual average debt-service payments (1974-1979) by the most seriously affected countries on official bilateral debt outstanding at the end of 1973**

| Country | Owed to DAC member countries | | Owed to socialist countries of Eastern Europe | | Total | |
|---|---|---|---|---|---|---|
| | *$ 000* | *Percentage of total* | *$ 000* | *Percentage of total* | *$ 000* | *Percentage of total* |
| Afghanistan | 11 608 | 1.43 | 30 373 | 18.95 | 41 981 | 4.33 |
| Bangladesh | 14 330 | 1.77 | 13 697 | 8.54 | 28 027 | 2.89 |
| Burundi | 224 | 0.03 | .. | .. | 224 | 0.02 |
| Central African Republic | 1 580 | 0.20 | 325 | 0.20 | 1 905 | 0.20 |
| El Salvador | 2 431 | 0.30 | .. | .. | 2 431 | 0.25 |
| Ethiopia | 8 831 | 1.09 | 3 024 | 1.89 | 11 855 | 1.22 |
| Ghana | 9 988 | 1.23 | .. | .. | 9 988 | 1.03 |
| Guyana | 7 703 | 0.95 | .. | .. | 7 703 | 0.79 |
| Haiti | 3 567 | 0.44 | .. | .. | 3 567 | 0.37 |
| Honduras | 1 847 | 0.23 | .. | .. | 1 847 | 0.19 |
| Ivory Coast | 24 619 | 3.04 | .. | .. | 24 619 | 2.54 |
| Kenya | 18 947 | 2.34 | 76 | 0.05 | 19 023 | 1.96 |
| Lesotho | 158 | 0.02 | .. | .. | 158 | 0.02 |
| Madagascar | 7 810 | 0.97 | .. | .. | 7 810 | 0.81 |
| Mali | 3 884 | 0.48 | 8 468 | 5.28 | 12 352 | 1.27 |
| Niger | 4 829 | 0.60 | .. | .. | 4 829 | 0.50 |
| Rwanda | 106 | 0.01 | .. | .. | 106 | 0.01 |
| Senegal | 9 036 | 1.12 | 687 | 0.43 | 9 723 | 1.00 |
| Sierra Leone | 3 257 | 0.40 | .. | .. | 3 257 | 0.34 |
| Somalia | 1 591 | 0.20 | 6 032 | 3.76 | 7 623 | 0.79 |
| Sri Lanka | 24 565 | 3.04 | 4 689 | 2.93 | 29 254 | 3.02 |
| Sudan | 8 452 | 1.04 | 3 606 | 2.25 | 12 058 | 1.24 |
| Uganda | 5 885 | 0.73 | 5 072 | 3.16 | 10 957 | 1.13 |
| United Republic of Cameroon | 12 530 | 1.55 | 586 | 0.37 | 13 116 | 1.35 |
| United Republic of Tanzania | 10 387 | 1.28 | 3 966 | 2.47 | 14 353 | 1.48 |
| Upper Volta | 2 610 | 0.32 | .. | .. | 2 610 | 0.27 |
| *Sub-total (26 countries)* | *200 775* | *24.81* | *80 601* | *50.28* | *281 376* | *29.02* |
| India | 463 999 | 57.33 | 64 819 | 40.44 | 528 818 | 54.54 |
| Pakistan[a] | 144 526 | 17.86 | 14 874 | 9.28 | 159 400 | 16.44 |
| *Total* | *809 300* | *100.00* | *160 294* | *100.00* | *969 594* | *100.00* |

*Source:* UNCTAD secretariat, based on information supplied by the World Bank.

[a] In the case of Pakistan, it is assumed that all debt relief is on official bilateral debt.

cent of the net transfer of resources to those two countries in 1973 and 98 per cent of the net transfer generated by official grants and loans to these countries in 1973.

69. A further question for consideration concerns the way in which the burden of providing relief to the most seriously affected countries in this form would be distributed among donor countries. As may be seen from table 18, the largest creditors of the most seriously affected countries on account of bilateral official transactions are the Federal Republic of Germany, Japan, the United Kingdom and the United States of America, which together accounted for roughly 73 per cent of the total oustanding official bilateral debt of those countries at the end of 1973 and 68 per cent of the projected debt-service payments during the period 1974-1979.[19] The countries mentioned are, of course, also important sources of new bilateral official lending to the most seriously affected countries. As may be seen further from table 18, 15 per cent, or $160 million, of the projected debt-service payments in 1974-1979 are owed to the socialist countries of Eastern Europe.

70. For the least developed among the developing countries, annual debt-service payments on account of all official bilateral flows were, on average, only $43 million during the period 1971-1973. The proposal to convert official development assistance loans to grants for these countries, therefore, implies a very small cost to the donor countries, particularly since not all of these official flows fall under the heading of official development assistance.

71. The question arises whether a moratorium on the servicing of official debt would yield an additional net flow of resources to the most seriously affected countries and whether such relief would alter the existing distribution of concessional flows. It should be noted in the first place that

[19] These figures on projected debt-service payments do not reflect recent debt relief accorded to India and Pakistan, since information on the distribution of that debt relief among donors is not yet available.

TABLE 18

**Bilateral official assistance in 1973: debt outstanding (end of 1973), annual average debt-service payments (1974-1979) and gross disbursements (1973) by donor countries**

| Creditor | Debt outstanding, including undisbursed debt (end of 1973) | | Debt-service payments (annual average, 1974-1979) | | Gross disbursements (1973) | | | |
|---|---|---|---|---|---|---|---|---|
| | *$ million* | *Percentage of total* | *$ million* | *Percentage of total* | *Loans* | *Grants $ million* | *Total* | *Percentage of total* |
| Australia | – | – | 12.3 | 1.1 | . . | 12.5 | 12.5 | 0.5 |
| Austria | 27.5 | 0.2 | 3.0 | 0.3 | 2.7 | 0.5 | 3.2 | 0.1 |
| Belgium | 47.6 | 0.3 | 2.2 | 0.2 | 5.1 | 37.1 | 42.2 | 1.8 |
| Canada | 957.8 | 5.8 | 33.5 | 3.1 | 144.0 | 105.4 | 249.4 | 10.7 |
| Denmark | 93.9 | 0.6 | 2.9 | 0.3 | 11.5 | 17.3 | 28.8 | 1.2 |
| Finland | 5.6 | – | 0.2 | – | 0.8 | . . | 0.8 | 0.0 |
| France | 812.8 | 5.0 | 79.8 | 7.4 | 128.1 | 170.7 | 298.8 | 12.8 |
| Germany, Federal Republic of | 2 452.3 | 14.9 | 210.7 | 19.5 | 230.3 | 127.4 | 357.7 | 15.4 |
| Italy | 227.0 | 1.4 | 25.4 | 2.4 | 15.4 | 14.3 | 29.7 | 1.3 |
| Japan | 1 225.4 | 7.5 | 131.0 | 12.1 | 137.5 | 26.0 | 163.5 | 7.0 |
| Netherlands | 257.1 | 1.6 | 11.3 | 1.1 | 38.4 | 24.7 | 63.1 | 2.7 |
| New Zealand | – | . . | . . | . . | . . | 0.1 | 0.1 | . . |
| Norway | – | . . | . . | . . | . . | 28.1 | 28.1 | 1.2 |
| Sweden | 226.1 | 1.4 | 4.9 | 0.5 | 29.9 | 53.3 | 83.2 | 3.6 |
| Switzerland | 49.0 | 0.3 | 4.9 | 0.5 | 12.9 | 12.4 | 25.3 | 1.1 |
| United Kingdom | 1 972.0 | 12.0 | 113.9 | 10.6 | 208.3 | 48.0 | 256.3 | 11.0 |
| United States of America | 6 293.9 | 38.3 | 283.8 | 26.3 | 328.7 | 247.0 | 575.7 | 24.7 |
| Total, DAC member countries | 14 648.0 | 89.2 | 919.5[a] | 85.2 | 1 293.6 | 924.8 | 2 218.4 | 95.3 |
| Socialist countries of Eastern Europe | 1 777.3 | 10.8 | 160.3 | 14.9 | 109.8 | . . | 109.8 | 4.7 |
| Grand total | 16 425.3 | 100.0 | 1 079.8 | 100.0 | 1 403.4 | 924.8 | 2 328.2 | 100.0 |

*Source:* UNCTAD secretariat, based on information provided by the World Bank.

[a] Includes debt relief granted to Pakistan, for which the distribution by donor is not yet available.

both these results cannot occur simultaneously. The possibility of debt relief altering the distribution of concessional financial flows exists only when relief yields additional funds to one or more debtor countries.

72. In principle, debt relief should be provided for by additional financing arrangements in donor countries, so as to generate a larger flow to developing countries as a whole. If such an additional flow to the most seriously affected countries were not generated, debt relief would none the less play an important part in improving the quality of the assistance by releasing a sizeable part of foreign exchange earnings for the financing of necessary imports.

73. In the final analysis, however, it would appear highly unlikely that the addition of debt relief as a financial instrument would lessen the influence that donor countries at present exert on the geographical distribution of their aid programmes. Debt relief would have implications for the geographical distribution of concessional flows only if donor countries chose to allow the relief to generate additional flows to a particular recipient country or if debt-service payments due from a particular country among those most seriously affected to a particular donor country exceeded the amounts of new development assistance planned by the donor country to that recipient. In the first of these two cases, the geographical distribution of assistance wouls still remain entirely under the control of donor countries. In the second case, some loss of control by donor countries over the distribution of concessional funds is clearly implied. It should be noted, however, that this would come about only because the planned concessional disbursements by donor countries to the country in question had resulted in a negative net transfer to that country. Given the international commitment to assist the most seriously affected countries, some redistribution would appear to be in order when such a situation arises.

# *ANNEXES*

## ANNEX I

## Financial flows to and from developing countries, including flows among developing countries: recent developments

### A. Total financial flows from DAC member countries in 1974: a survey

1. Total net financial flows from DAC member countries to developing countries and multilateral institutions increased from $22.1 billion in 1973 to $24.7 billion in 1974, an increase of about 12 per cent (see table I,1 below). However, when account is taken of price increases in DAC member countries and changes in the exchange rate of the United States dollar, it appears that these flows in real terms may have declined by about 7 per cent in 1974.

2. Table I.1 also indicates that the performance of DAC member countries as a whole against the 1 per cent target improved slightly in 1974 over 1973. This improvement was heavily influenced by the performance of three donor countries (the Federal Republic of Germany, the United Kingdom and the United States of America), which together recorded a 37 per cent increase in flows in 1974 as compared with 1973. These three countries accounted for over 54 per cent of the total net financial flows from DAC member countries to developing countries and multilateral institutions in 1974.

3. Among the donor countries, there were quite divergent trends in 1974. The combined flows from Austria, Denmark, Italy and Switzerland declined by 3.6 per cent and the total flows from Japan fell to a level little more than one-half that of 1973; on the other hand, all other countries taken together recorded an increase in total flows of 36 per cent. There was thus a better performance against the 1 per cent target for a number of DAC member countries. Indeed, whereas only two countries (France and Japan) met the target in 1973, six countries (Belgium, Canada, France, Netherlands, Sweden and the United Kingdom) reached or exceeded the target in 1974.

### B. Official development assistance:[a] the volume and terms of flows from DAC member countries in 1974

4. Total net flows of official development assistance from DAC member countries to multilateral institutions and developing countries in Africa, Asia and Latin America rose from $9.2 billion in 1973 to $11.2 billion in 1974, an increase of 22 per cent (see table I.2 below). However, in real terms, the flows remained at about the same level as in 1973.

5. The three single largest sources of the increase in the value of official development assistance flows in 1974 (at current prices and exchange rates) were the United States of America (24 per cent), Canada and the Federal Republic of Germany (together 27 per cent). These three countries together accounted for 51 per cent of the total increase in such flows in 1974. There was a noticeable improvement in the performance of DAC member countries as a whole with regard to the 0.7 per cent target: flows from these countries amounted to 0.33 per cent of their GNP in 1974, as compared with 0.30 per cent in 1973 (see table I.3). The improved performance was spread fairly evenly among DAC member countries, 13 of the 17 DAC members recording an increase in their ratios in 1974. It should be noted that in 1974 Sweden became the first DAC member country to attain the 0.7 per cent target.

[a] For a detailed examination of trends in official development assistance prior to 1973, see "Financial flows to and from developing countries: report by the UNCTAD secretariat" (TD/B/(XV)/Misc.3-TD/B/C.3(VII)/Misc.1), paras. 16-26.

6. For DAC member countries as a whole, the share of disbursements of official development assistance through multilateral institutions increased markedly, from 24.7 per cent in 1973 to 27.3 per cent in 1974.

7. There was a slight hardening in the over-all terms on which official development assistance was extended in 1974. The share of grants in new commitments declined from 66 per cent in 1973 to 65 per cent in 1974 (see table I.4). Moreover, the grant element in official development assistance loans declined from 63.0 per cent in 1973 to 60.1 per cent in 1974.[b]

8. Table I.4 also provides information on compliance by DAC member countries with Conference resolution 60 (III). Whereas, in 1973, only two countries (Denmark and Sweden) had complied with all three components of the resolution, in 1974 three additional countries (Canada, Finland and Norway) had also complied.

9. The 1972 DAC Recommendation on Terms and Conditions of Aid states that DAC member countries should "use their best efforts to reach and maintain an average grant element[c] in their official development assistance commitments of at least 84 per cent". As may be seen from table I.5, 11 DAC member countries complied with the norm in 1974. For DAC member countries as a whole, however, the grant element in official development assistance declined from 87.5 per cent in 1973 to 86.0 per cent in 1974.

10. The 1972 recommendation established a separate target for official development assistance flows to the least developed among the developing countries, according to which they "should preferably be in the form of grants and the average grant element of all commitments from a given donor should either be at least 86 per cent to each least developed country over a period of three years or at least 90 per cent annually for the least developed countries as a group".[d]

11. It is not yet possible to assess fully the performance of DAC member countries with regard to this target, because three years have not yet elapsed since the adoption of the Recommendation. It can be ascertained that 11 DAC member countries[e] complied with the second alternative in 1974.

### C. "Other official flows" and private flows

12. "Other officials flows" from DAC member countries, which consist mainly of official export credits and official purchases of loan participations and bonds issued by multilateral institutions, declined by 11 per cent to $2.2 billion in 1974.

[b] See OECD, *Development Co-operation, 1975 Review* (Paris, 1975), statistical annex, table 18.

[c] Whereas the grant element in a grant is of course 100 per cent, the grant element in a loan is obtained by deducting from the face value of the loan the discounted present value of the required amortization and interest payments, this difference being expressed as a percentage of the face value. The DAC discounts future payments by using a 10 per cent rate of discount. For further discussion of this concept, see *The concepts of the present aid and flow targets: report by the Secretary-General of UNCTAD* (United Nations publication, Sales No. E.75.II.D.8), paras. 16-27.

[d] OECD, *Development Co-operation, 1974 Review* (Paris, 1974).

[e] Australia, Belgium, Canada, Denmark, France, Federal Republic of Germany, Netherlands, New Zealand, Norway, Sweden and Switzerland.

TABLE I.1

**Performance of DAC member countries against the 1 per cent target, 1962-1974[a]**

| Country | *1962* | *1963* | *1964* | *1965* | *1966* | *1967* | *1968* | *1969* | *1970* | *1971* | *1972* | *1973* | *1973* | *Total flows (million dollars)* *1973* | *1974* |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Australia | 0.43 | 0.51 | 0.57 | 0.64 | 0.63 | 0.74 | 0.73 | 0.74 | 1.10 | 1.33 | 0.94 | 0.51 | 0.65 | 332.2 | 506.2 |
| Austria | 0.36 | 0.07 | 0.19 | 0.49 | 0.35 | 0.38 | 0.62 | 0.49 | 0.42 | 0.46 | 0.18 | 0.56 | 0.45 | 152.8 | 147.2 |
| Belgium | 0.92 | 1.25 | 1.05 | 1.28 | 0.97 | 0.83 | 1.15 | 0.99 | 1.09 | 1.02 | 1.15 | 0.98 | 1.00 | 448.7 | 532.0 |
| Canada | 0.27 | 0.31 | 0.30 | 0.33 | 0.47 | 0.44 | 0.45 | 0.49 | 0.68 | 0.91 | 0.89 | 0.82 | 1.10 | 978.0 | 1 567.3 |
| Denmark | 0.20 | 0.13 | 0.36 | 0.15 | 0.19 | 0.20 | 0.67 | 0.82 | 0.51 | 0.82 | 0.54 | 0.61 | 0.55 | 168.6 | 167.7 |
| Finland | .. | .. | .. | .. | .. | .. | .. | .. | 0.24 | 0.27 | 0.36 | 0.15 | 0.30 | 25.5 | 61.4 |
| France | 1.88 | 1.49 | 1.46 | 1.30 | 1.21 | 1.14 | 1.32 | 1.17 | 1.11 | 0.90 | 0.95 | 1.08 | 1.09 | 2 750.6 | 2 991.5 |
| Germany, Federal Republic of | 0.65 | 0.60 | 0.65 | 0.60 | 0.61 | 0.89 | 1.17 | 1.00 | 0.61 | 0.67 | 0.48 | 0.40 | 0.68 | 1 382.6 | 2 601.5 |
| Italy | 0.82 | 0.56 | 0.40 | 0.42 | 0.95 | 0.37 | 0.71 | 0.95 | 0.71 | 0.74 | 0.53 | 0.34 | 0.30 | 467.0 | 447.7 |
| Japan | 0.49 | 0.39 | 0.36 | 0.55 | 0.61 | 0.66 | 0.71 | 0.72 | 0.88 | 0.92 | 0.92 | 1.40 | 0.65 | 5 682.6 | 2 920.2 |
| Netherlands | 0.86 | 0.92 | 0.69 | 1.23 | 1.20 | 0.98 | 0.70 | 1.29 | 1.31 | 1.15 | 1.55 | 0.90 | 1.24 | 534.4 | 858.0 |
| New Zealand | .. | .. | .. | .. | 0.21 | 0.21 | 0.26 | 0.32 | 0.36 | 0.33 | 0.33 | 0.28 | 0.36 | 31.0 | 44.3 |
| Norway | 0.13 | 0.37 | 0.36 | 0.54 | 0.22 | 0.36 | 0.64 | 0.45 | 0.57 | 0.49 | 0.34 | 0.45 | 0.77 | 89.5 | 176.9 |
| Sweden | 0.24 | 0.32 | 0.35 | 0.35 | 0.48 | 0.50 | 0.50 | 0.73 | 0.59 | 0.58 | 0.57 | 0.64 | 1.06 | 319.0 | 587.1 |
| Switzerland | 1.51 | 1.74 | 0.86 | 1.38 | 0.71 | 0.85 | 1.38 | 0.55 | 0.55 | 0.89 | 0.49 | 0.62 | 0.53 | 256.6 | 245.2 |
| United Kingdom | 0.89 | 0.80 | 0.96 | 0.99 | 0.82 | 0.70 | 0.78 | 0.95 | 0.92 | 0.85 | 0.84 | 0.79 | 1.17 | 1 395.0 | 2 234.3 |
| United States of America | 0.69 | 0.70 | 0.78 | 0.73 | 0.61 | 0.69 | 0.67 | 0.49 | 0.54 | 0.58 | 0.57 | 0.54 | 0.62 | 7 044.0 | 8 645.0 |
| DAC total | 0.75 | 0.72 | 0.76 | 0.75 | 0.68 | 0.71 | 0.77 | 0.68 | 0.69 | 0.71 | 0.68 | 0.71 | 0.72 | 22 058.1 | 24 733.5 |

*Source:* OECD, *Development Assistance* (Paris), various issues; OECD, *Development Co-operation, 1975 Review* (Paris, 1975); and information supplied by the OECD secretariat.

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

TABLE I.2

**Official development assistance of DAC member countries: net disbursements**

*(Million dollars)*

| | *Bilateral*[a] | | | | | *Contributions to multilateral institutions*[b] | | | | | *Total* | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | *1970* | *1971* | *1972* | *1973* | *1974* | *1970* | *1971* | *1972* | *1973* | *1974* | *1970* | *1971* | *1972* | *1973* | *1974* |
| Australia | 190.0 | 190.9 | 253.5 | 262.8 | 389.9 | 12.4 | 11.2 | 13.4 | 23.0 | 40.3 | 202.4 | 202.1 | 266.9 | 285.8 | 430.2 |
| Austria | 3.9 | 6.7 | 3.6 | 7.9 | 19.8 | 6.4 | 5.7 | 13.5 | 32.5 | 39.6 | 10.3 | 12.4 | 17.1 | 40.4 | 59.4 |
| Belgium | 90.7 | 109.1 | 129.1 | 177.2 | 204.6 | 27.4 | 35.9 | 62.9 | 55.9 | 63.4 | 118.1 | 145.0 | 192.0 | 233.1 | 268.0 |
| Canada | 264.4 | 289.3 | 337.8 | 344.1 | 492.3 | 78.6 | 96.5 | 153.7 | 165.5 | 217.0 | 343.0 | 385.8 | 491.5 | 509.6 | 709.3 |
| Denmark | 37.1 | 36.0 | 46.1 | 71.8 | 93.1 | 21.7 | 38.0 | 49.6 | 59.9 | 74.9 | 58.8 | 74.0 | 95.7 | 131.7 | 168.0 |
| Finland[c] | 1.3 | 3.1 | 7.6 | 13.8 | 14.6 | 5.5 | 10.2 | 12.8 | 14.2 | 23.1 | 6.8 | 13.3 | 20.4 | 28.0 | 37.7 |
| France | 840.9 | 925.0 | 1 100.9 | 1 293.2 | 1 389.0 | 102.9 | 128.7 | 191.5 | 194.1 | 227.1 | 943.8 | 1 053.7 | 1 292.4 | 1 487.3 | 1 616.1 |
| Germany, Federal Republic of | 421.7 | 507.7 | 562.1 | 654.0 | 899.9 | 132.9 | 204.7 | 206.8 | 310.6 | 415.4 | 554.6 | 712.4 | 768.9 | 964.6 | 1 315.8 |
| Italy | 68.3 | 109.5 | 46.9 | 79.2 | 20.7 | 84.5 | 45.6 | 50.8 | 73.8 | 218.1 | 152.8 | 155.1 | 97.7 | 153.0 | 238.8 |
| Japan | 372.3 | 432.8 | 475.1 | 742.5 | 857.4 | 86.5 | 78.7 | 133.3 | 245.8 | 245.8 | 458.8 | 511.5 | 608.4 | 988.3 | 1 103.2 |
| Netherlands | 153.3 | 150.8 | 191.3 | 220.0 | 301.2 | 41.8 | 63.8 | 113.8 | 92.1 | 132.7 | 195.1 | 214.6 | 305.1 | 312.1 | 433.9 |
| New Zealand[c] | 10.8 | (13.1) | 16.2 | 20.1 | 29.5 | (2.9) | (3.6) | 4.4 | 8.9 | 9.7 | (13.7) | (16.7) | 20.6 | 29.0 | 39.2 |
| Norway | 14.2 | 18.2 | 30.0 | 40.6 | 72.8 | 22.1 | 24.2 | 32.8 | 46.2 | 58.4 | 36.3 | 42.4 | 62.8 | 86.8 | 181.2 |
| Sweden | 62.0 | 65.4 | 106.7 | 153.1 | 232.7 | 53.9 | 91.2 | 91.0 | 122.2 | 167.9 | 115.9 | 156.6 | 197.7 | 275.3 | 400.6 |
| Switzerland | 18.5 | 20.1 | 29.8 | 33.3 | 42.3 | 11.8 | 9.0 | 34.2 | 31.7 | 23.0 | 30.3 | 29.1 | 64.0 | 65.0 | 65.3 |
| United Kingdom | 368.5 | 464.5 | 458.5 | 427.3 | 499.2 | 47.9 | 74.0 | 127.8 | 160.8 | 221.7 | 416.4 | 538.5 | 586.3 | 588.1 | 720.9 |
| United States of America | 2 610.0 | 2 810.0 | 2 563.0 | 2 362.0 | 2 601.0 | 393.0 | 431.0 | 625.0 | 631.0 | 882.0 | 3 003.0 | 3 241.0 | 3 188.0 | 2 993.0 | 3 483.0 |
| DAC total | 5 527.9 | 6 152.2 | 6 358.2 | 6 902.9 | 8 160.0 | 1 132.2 | 1 352.0 | 1 917.3 | 2 268.2 | 3 060.1 | 6 660.1 | 7 504.2 | 8 275.5 | 9 171.1 | 11 220.1 |

*Source:* OECD, *Development Co-operation, 1975 Review* (Paris, 1975) and data supplied by the OECD secretariat.

NOTE. Data in parentheses are OECD secretariat estimates.

[a] Grants and loans to developing countries in Africa, Asia and Latin America.

[b] Grants, capital subscription and concessional loans by Governments.

[c] Finland and New Zealand became members of DAC in 1974 and 1972 respectively.

TABLE I.3

**Official development assistance: performance of DAC member countries against the 0.7 per cent target (total of flows as a percentage of GNP at market prices), 1969-1974**

| *Country*[a] | *1961-1962 average*[b] | *1969* | *1970* | *1971* | *1972* | *1973* | *1974* | *1969-1974 average* |
|---|---|---|---|---|---|---|---|---|
| France | 1.31 | 0.65 | 0.64 | 0.65 | 0.66 | 0.58 | 0.59 | 0.62 |
| Netherlands | 0.47 | 0.49 | 0.61 | 0.58 | 0.67 | 0.52 | 0.63 | 0.59 |
| Australia | 0.43 | 0.56 | 0.59 | 0.53 | 0.59 | 0.44 | 0.37 | 0.53 |
| Sweden | 0.09 | 0.43 | 0.37 | 0.43 | 0.48 | 0.56 | 0.72 | 0.52 |
| Belgium | 0.64 | 0.49 | 0.46 | 0.50 | 0.55 | 0.51 | 0.50 | 0.50 |
| Denmark | 0.11 | 0.38 | 0.37 | 0.42 | 0.45 | 0.48 | 0.55 | 0.46 |
| Canada | 0.12 | 0.33 | 0.42 | 0.42 | 0.47 | 0.43 | 0.50 | 0.44 |
| Norway | 0.14 | 0.30 | 0.32 | 0.33 | 0.43 | 0.44 | 0.57 | 0.42 |
| United Kingdom | 0.56 | 0.37 | 0.34 | 0.39 | 0.37 | 0.33 | 0.38 | 0.36 |
| Germany, Federal Republic of | 0.45 | 0.33 | 0.30 | 0.33 | 0.30 | 0.28 | 0.34 | 0.31 |
| United States of America | 0.56 | 0.32 | 0.30 | 0.31 | 0.28 | 0.23 | 0.25 | 0.28 |
| New Zealand | .. | 0.22 | 0.22 | 0.23 | 0.25 | 0.27 | 0.31 | 0.26 |
| Japan | 0.17 | 0.26 | 0.23 | 0.23 | 0.21 | 0.24 | 0.24 | 0.24 |
| Switzerland | 0.06 | 0.16 | 0.15 | 0.12 | 0.21 | 0.16 | 0.14 | 0.16 |
| Finland | .. | .. | 0.07 | 0.12 | 0.15 | 0.16 | 0.18 | 0.15 |
| Italy | 0.17 | 0.09 | 0.16 | 0.15 | 0.08 | 0.11 | 0.16 | 0.13 |
| Austria | 0.04 | 0.10 | 0.07 | 0.08 | 0.08 | 0.15 | 0.18 | 0.12 |
| DAC total | 0.52 | 0.34 | 0.33 | 0.34 | 0.32 | 0.30 | 0.33 | 0.32 |

*Source:* OECD, *Development Co-operation, 1975 Review* (*op. cit.*) and data supplied by the OECD secretariat.

[a] Countries are listed in descending order of average performance in 1969-1974.

[b] Including flows to southern European recipient countries and territories, i.e. Cyprus, Gibraltar, Greece, Malta, Spain, Turkey and Yugoslavia.

13. Total net private capital flows,[f] which consist largely of export credits and direct investments, grew by 12 per cent, from $11.4 billion in 1973 to $12.8 billion in 1974. A notable feature of private flows during 1974 was the sharp growth in net disbursements of private export credits, which rose from $1.2 billion in 1973 to $2.5 billion. A further development in 1974 was that for DAC member countries as a whole private net multilateral portfolio investment with multilateral lending agencies became negative, thus continuing a steady downward trend that has been in evidence since 1971, when such investments reached $770 million.

14. After growing at an average rate of 24 per cent per annum from 1970 to 1973, net disbursements of private direct investment declined from $6.7 billion in 1973 to $6.6 billion in 1974 (see table I.6). Bilateral portfolio investments and "other" private investments (mainly bank loans) increased somewhat during 1974, so that the combined total of bilateral portfolio investment and direct investment grew by 4 per cent.

15. As regards porfolio investment proper, new bond issues by developing countries declined sharply from $1.2 billion in 1973 to $8.0 billion in 1974. This decline is almost entirely accounted for by a precipitous drop in borrowings from the Euro-bond markets (see table I.7). During the first three quarters of 1975, foreign and international bond issues by developing countries recorded a lower rate than that experienced during the same period a year earlier, suggesting that this flow may have registered a further decline in 1975 as a whole.

16. As may be seen from table I.8, credits granted to non-oil-exporting developing countries by the Euro-currency market increased by 36 per cent, to $6.7 billion, in 1974. This was accompanied by a sharp decline in borrowing by oil-exporting developing countries. Data for the first three quarters of 1975 indicate that credits to non-oil-exporting developing countries were being granted at a lower rate than during the same period a year earlier. On the other hand, credits to oil-exporting countries during the first three quarters of 1975 substantially exceeded their borrowing during the whole of 1974.

17. A striking feature of borrowings from the Euro-currency market is its concentration among a few countries in Asia and Latin America. In 1974, for example, six non-oil-exporting developing countries (Argentina, Brazil, Republic of Korea, Mexico, Peru and Philippines) accounted for roughly 70 per cent of total credits from this source. The significance of this source of financing is particularly great for these countries, but such flows may also provide a critical margin of external financing for other countries using the market.

18. In assessing the data, obtained primarily from "tombstones", a number of qualifying considerations should be borne in mind. First, although reporting procedures have improved considerably in recent years, these figures none the less represent an unknown fraction of total borrowings, since it is known that not all loans, for a variety of reasons, are announced publicly. Secondly, the amounts reported are gross commitments and therefore it is not possible to evaluate the net transfers that may have taken place. There is also the possibility that some of these loans, which are used on a "stand-by" or "line of credit" basis, are not necessarily drawn upon. Finally, the available information does not indicate the extent to which credits have been used to repay other obligations or have been redeposited. As regards the latter point, information regarding the transactions of United Kingdom banks with developing countries indicates that at the end of 1974 net Euro-currency liabilities of non-oil-exporting developing countries to United Kingdom banks were much the same as at the end of 1973 (see table I.9).

[f] See OECD, *Development Co-operation, 1975 Review, op. cit.*, statistical annex, tables 9 and 10.

TABLE 1.4

**Terms of official development assistance,[a] 1971-1974, and compliance of DAC member countries in 1974 with Conference resolution 60 (III)[b]**

| Country | *Grants as share of official development assistance commitments (per cent)* | | | | *Maturity (years)* | | | | *Interest rate (per cent)* | | | | *Grace period (years)* | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | *1971* | *1972* | *1973* | *1974* | *1971* | *1972* | *1973* | *1974* | *1971* | *1972* | *1973* | *1974* | *1971* | *1972* | *1973* | *1974* |
| *Complying in 1974 with Conference resolution 60 (III)* | | | | | | | | | | | | | | | | |
| Canada | 64 | 68 | 47 | 77 | 43.1 | 49.9 | 49.2 | 48.5 | 1.0 | – | 0.1 | 0.2 | 8.9 | 9.9 | 9.9 | 9.8 |
| Denmark | 70 | 76 | 79 | 69 | 25.0 | 25.0 | 31.8 | (31.1) | – | – | 0.1 | (0.1) | 7.0 | 7.0 | 9.0 | (9.0) |
| Finland | .. | 92 | 64 | 63 | .. | 27.3 | 25.0 | 25.0 | .. | 2.0 | 2.0 | 0.8 | .. | 5.0 | 7.0 | (7.5) |
| Norway | 99 | 99 | 99 | 100 | 25.0 | 23.0 | 28.0 | – | 2.0 | 2.2 | 2.5 | – | 5.0 | 8.0 | 10.0 | – |
| Sweden | 76 | 76 | 93 | 98 | 48.6 | 46.0 | 47.1 | (41.7) | 0.8 | 0.9 | 0.9 | (1.7) | 10.0 | 10.0 | 10.0 | (8.7) |
| *Not complying in 1974 with Conference resolution 60 (III)* | | | | | | | | | | | | | | | | |
| Australia | 100 | 100 | 99 | 99 | – | – | 8.9 | 8.0 | – | – | 3.0 | 3.0 | – | – | 2.4 | 4.0 |
| Austria | 53 | 70 | 33 | 26 | 10.8 | 17.5 | 15.5 | 13.4 | 3.6 | 3.9 | 3.9 | 4.0 | 2.5 | 6.5 | 4.8 | 3.5 |
| Belgium | 91 | 90 | 89 | 89 | 30.0 | 30.0 | 28.0 | 29.3 | 2.2 | 2.2 | 2.5 | 2.1 | 9.5 | 9.3 | 8.6 | 9.8 |
| France | 76 | 79 | 84 | 78 | 17.7 | 15.3 | 21.6 | .. | 4.0 | 4.1 | 3.4 | .. | 2.5 | 3.2 | 4.6 | .. |
| Germany, Federal Republic of | 54 | 53 | 54 | 48 | 29.6 | 28.9 | 29.3 | (32.9) | 2.0 | 2.6 | 2.1 | (1.8) | 6.6 | 8.3 | 9.2 | (9.9) |
| Italy | 25 | 49 | 54 | 96 | 15.8 | 11.1 | 14.8 | (19.8) | 4.4 | 5.7 | 4.3 | (4.0) | 3.1 | 4.7 | 4.1 | (4.3) |
| Japan | 33 | 33 | 40 | 27 | 22.1 | 21.2 | 23.1 | (23.5) | 3.5 | 4.0 | 3.1 | (3.5) | 6.7 | 6.6 | 7.0 | (7.2) |
| Netherlands | 70 | 60 | 71 | 67 | 29.8 | 30.7 | 30.9 | (31.0) | 3.0 | 2.5 | 2.5 | (2.4) | 6.8 | 9.4 | 8.4 | (8.1) |
| New Zealand | .. | 91 | 97 | 97 | .. | 15.1 | (25.0) | – | .. | 1.0 | (2.6) | .. | .. | 3.1 | (6.2) | .. |
| Switzerland | 82 | 59 | 86 | 91 | 18.1 | 49.1 | 21.1 | 37.6 | 4.1 | 0.1 | 3.0 | 2.1 | 5.9 | 9.1 | 6.9 | 8.4 |
| United Kingdom | 47 | 60 | 62 | 56 | 24.1 | 22.5 | 24.9 | 24.5 | (1.6) | 1.4 | 1.1 | 2.0 | (6.2) | 5.9 | 6.1 | 6.7 |
| United States of America | 59 | 63 | 68 | 72 | 35.7 | 37.1 | 40.1 | 37.0 | 2.9 | 2.6 | 2.6 | 2.6 | 8.7 | 9.7 | 10.7 | 9.0 |
| DAC member countries, total | 59 | 64 | 66 | 65 | 29.1 | (29.5) | 32.0 | .. | 2.8 | (2.8) | (2.4) | .. | 7.1 | (7.8) | (8.4) | .. |

*Source:* OECD, *Development Co-operation, 1975 Review* (*op. cit.*), statistical annex, table 18.

NOTE. Data in parentheses are OECD secretariat estimates in whole or in part.

[a] Including flows to southern European recipient countries and territories.

[b] Conference resolution 60 (III) "invites the developed countries to take into consideration the views of the developing countries, as well as of some developed countries that (*a*) on average, interest rates on official development loans should not exceed 2 per cent per annum; (*b*) maturity periods of such loans should be at least 25 to 40 years and grace periods should not be less than 7 to 10 years; (*c*) the proportion of grants in total assistance of each developed country should be progressively increased, and countries contributing less than the 1970 Development Assistance Committee average of 63 per cent of their total assistance in the form of grants should reach that level not later than 1975". The classification of this table of countries with regard to compliance in 1974 with Conference resolution 60 (III) is provisional, since detailed information for 1974 is not yet available for a number of DAC member countries.

TABLE I.5

**Grant element in official development assistance: compliance of DAC member countries in 1974 with the 1972 DAC Recommendation on Terms and Conditions of Aid[a]**

*(Percentages)*

| *Country* | *Grant element in official development assistance* 1972 | 1973 | 1974 |
|---|---|---|---|
| *Complying with the norm in 1974:* | | | |
| Australia | 100.0 | 99.4 | 99.4 |
| Belgium | 96.4 | 95.6 | 96.3 |
| Canada | 96.8 | 94.1 | 97.2 |
| Denmark | 94.1 | 96.1 | 94.4 |
| France | 85.8 | 91.2 | (87.7) |
| Germany, Federal Republic of | 80.9 | 83.1[b] | (83.8) |
| Netherlands | 85.2 | 88.4 | 87.4 |
| New Zealand | 95.0 | 98.5 | 98.6 |
| Norway | 99.6 | 99.8 | 100.0 |
| Sweden | 95.2 | 98.6 | 99.3 |
| United Kingdom | 85.7 | 87.1 | 85.6 |
| *Not complying with the norm in 1974:* | | | |
| Austria | 81.1 | 57.4 | 49.3 |
| Finland[c] | 96.6 | 85.6 | 89.4 |
| Italy[d] | 58.8 | 69.3 | (97.8) |
| Japan | 61.1 | 68.6 | 61.4 |
| Switzerland[c] | 95.5 | 93.0 | 96.9 |
| United States of America[c] | 87.2 | 89.9 | 90.2 |
| DAC member countries, total | 84.8 | 87.5 | 86.0 |

*Source:* OECD, *Development Co-operation, 1975 Review (op. cit.)*.

NOTE. Data in parentheses are OECD secretariat estimates in whole or in part.

[a] The Recommendation states that DAC members should "use their best efforts to reach and maintain an average grant element in their official development assistance commitments of at least 84 per cent" (OECD, *Development Co-operation, 1972 Review* (Paris 1972), annex III, para. 2.

[b] In 1973, the grant element in new commitments on loans and grants amounted to 85.6 per cent, and consequently the Federal Republic of Germany complied with the 1972 Recommendation in that year. The inclusion of debt reorganization, however, has lowered the over-all grant element to 83.1 per cent.

[c] Finland, Switzerland and the United States of America had an insufficient performance in respect of the volume of official development assistance, but would have complied if the volume of their commitments had been higher (see OECD, *Development Co-operation, 1975 Review, op. cit.*, p. 132).

[d] Italy did not subscribe to the Recommendation.

## D. Financial flows from socialist countries[g]

*Socialist countries of Eastern Europe*

19. As may be seen from table I.10, preliminary information regarding commitments of assistance from socialist countries of Eastern Europe indicates that such commitments amounted to $1.6 billion in 1974, as compared with $2.0 billion in 1973.

[g] For a discussion of the lending programmes of these countries prior to 1974, see "Financial flows to and from developing countries: report by the UNCTAD secretariat", (TD/B(XV)/Misc.3-TD/B/C.3(VII)/Misc.1), chap. IV, sect. B and C.

*China*

20. Available information indicates that aid commitments by China in 1974 amounted to $411 million, as compared with $360 million in 1973.

## E. Operations of multilateral institutions[h]

21. Table I.11 presents data on financial flows between multilateral institutions and developing countries during the period 1969-1974. Because flows of funds to these institutions from the oil-exporting developing countries have recently taken on considerable importance, two sets of data have been presented in the table for each of the years 1973 and 1974. Column I records financial flows between multilateral institutions and all developing countries. The figures in this column are thus net of loans by oil-exporting developing countries to multilateral institutions. Column II records financial flows between multilateral institutions and non-oil-exporting developing countries.

22. As may be seen from the table, total net disbursements by multilateral institutions to non-oil-exporting developing countries rose from $1,807 million in 1973 to $3,090 million in 1974, an increase of 71 per cent.

23. Net disbursements of soft loans and grants to non-oil-exporting developing countries grew by 73 per cent in 1974, to $1,862 million, and disbursements under regular lending programmes increased by over 68 per cent, to $1,228 million. The share of soft loans and grants net of contributions by oil-exporting developing countries in total disbursements in that year remained at the level attained in 1973, namely 60 per cent.

24. As may be seen by comparing columns I and II of the table, transactions with oil-exporting developing countries had little effect on the magnitude of disbursements of soft loans and grants in 1974. As regards regular (hard) lending programmes, however, transactions with oil-exporting developing countries were quite significant; in the aggregate, multilateral institutions borrowed from oil-exporting developing countries $33 million more than they lent to all developing countries. In 1974, the regular lending programmes of multilateral institutions thus served simply to channel moneys from some developing countries to others.

## F. Financial flows from developing countries to developed countries

25. Information regarding financial reflows from developing countries to developed countries on account of debt service and profit remittances is presented in tables I.12 and I.13.

26. Data on debt service arising from public and publicly-guaranteed debt are presented on a regional basis in table I.12. As may be seen from that table, total debt-service payments for a sample of 79 developing countries increased from $3.5 billion in 1967 to $9.8 billion in 1973, at an average annual rate of 18.7 per cent. Gross disbursements of loans giving rise to these payments grew somewhat less rapidly, so that the net transfer associated with these transactions rose at an average annual rate of 11.3 per cent. The combination of slow growth in gross disbursements and mounting debt-service payments was particularly evident in the case of countries in Asia, for which the aggregate net transfer increased only marginally, from an average of $3.1 billion in 1967-1969 to $3.2 billion in 1971-1973.

27. During the entire period, the largest volume of debt service originated in countries in Latin America; payments by these countries in 1973 accounted for 42 per cent of the total debt-service payments of developing countries.

28. The other principal source of financial reflow from developing countries – remittances of profits – increased from $5.7

[h] For a detailed discussion of lending policies and programmes of various multilateral institutions, *ibid.*, paras. 91-114.

TABLE I.6

**Net flow of private investment to developing countries and territories[a] from DAC member countries, 1962-1974**

| Year | *Direct investment and bilateral portfolio investment ($ million)* | *Direct investment only (per cent)* | *Change in direct investment over preceding year (per cent)* | *Share of direct investment in total flows (per cent)* | *Total net flow of financial resources to developing countries[b] ($ million)* |
|---|---|---|---|---|---|
| 1962 | 1 642 | 1 495 | .. | 17.8 | 8 396 |
| 1963 | 1 930 | 1 603 | 7.2 | 18.8 | 8 521 |
| 1964 | 2 409 | 1 572 | −1.9 | 16.4 | 9 583 |
| 1965 | 3 114 | 2 459 | 56.4 | 23.9 | 10 289 |
| 1966 | 3 654 | 2 174 | −11.6 | 21.0 | 10 362 |
| 1967 | 2 873 | 2 103 | −3.3 | 18.5 | 11 372 |
| 1968 | 4 086 | 3 146 | 49.6 | 23.5 | 13 373 |
| 1969 | 4 101 | 2 921 | −7.2 | 21.3 | 13 703 |
| 1970 | 4 260 | 3 544 | 21.3 | 23.9 | 14 851 |
| 1971 | 4 365 | 3 632 | 2.5 | 21.4 | 16 933 |
| 1972 | 6 456 | 4 472 | 23.1 | 24.0 | 18 657 |
| 1973 | 9 996 | 6 711 | 50.1 | 28.8 | 23 291 |
| 1974 | 10 420 | 6 625 | −1.3 | 25.2 | 26 331 |

*Source:* OECD, *Flow of resources to developing countries* (Paris, 1973) and *Development Co-operation, 1975 Review* (*op. cit.*).

[a] Including flows to southern European recipient countries and territories.

[b] As defined under the 1 per cent target.

TABLE I.7

**Foreign and international bond issues by developing countries,[a] 1965-1975**

*(Million dollars)*

| Year | *North America* | *Europe[b]* | *Euro-bond market* | *Total* |
|---|---|---|---|---|
| 1965 | 222.2 | 39.9 | .. | 262.1 |
| 1966 | 203.7 | 74.3 | .. | 278.0 |
| 1967 | 273.6 | 172.6 | .. | 446.2 |
| 1968 | 225.0 | 307.4 | .. | 532.4 |
| 1969 | 235.1 | 51.2 | 102.6 | 388.9 |
| 1970 | 201.3 | 15.2 | 128.8 | 345.3 |
| 1971 | 283.0 | 17.4 | 71.0 | 371.4 |
| 1972 | 338.8 | .. | 491.6 | 830.4 |
| 1973 | 712.6 | 37.7 | 438.5 | 1 188.8 |
| 1974 | 704.3 | 16.7 | 92.2 | 813.2 |
| 1974 (Jan-Sept) | 579.6[c] | .. | 67.2 | 646.8 |
| 1975 (Jan-Sept) | 321.9[c] | .. | 271.1 | 593.0 |

*Source:* UNCTAD secretariat, based on World Bank/IDA, *Annual Report*, (Washington, D.C.), various issues, and information supplied by the World Bank.

[a] Developing countries in Africa, Asia and Latin America. Figures include both public and private placements.

[b] Figures include Euro-bond issues during 1965-1968.

[c] Including bond issues in Europe.

billion in 1969 to $11.8 billion in 1973, at an average annual rate of about 20 per cent (see table I-13). This outcome resulted primarily, however, from growth in remittances from the oil-exporting developing countries; remittances from other developing countries grew at an average annual rate of 4.4 per cent. The bulk of profit remittances from the non-oil-exporting developing countries was accounted for by countries in Latin America, flows from which amounted to 69 per cent of total reflows from non-oil-exporting developing countries in 1973.

### G. Financial flows from oil-exporting developing countries to other developing countries

29. As a result of oil price increases which have taken place since 1973, the total export revenues of the major-oil-exporting countries[i] are estimated to have grown from $44.9 billion in 1973 to about $136.7 billion in 1974 and $118.1 billion in 1975. These increases in export revenues are reflected in sharp increases in their payments surplus on current account, which is estimated to have increased from $5.6 billion in 1973 to $67.6 billion in 1974 and $42.7 billion in 1975. Since some of these countries find it difficult to absorb domestically export revenues of this magnitude, attention has focused on the external outlets available to the major oil-exporting countries in surplus and on the extent to which the surplus could be used, directly or indirectly, to finance the development of oil-importing developing countries. Admittedly, as the absorptive capacity of these countries in surplus improves, their ability to transfer capital in the future will tend to diminish. Nevertheless, their surpluses may be expected to make an important contribution towards financing the current-account deficit of the oil-importing developing countries which, in 1974 alone, deteriorated by about $21.3 billion, from $12.2 billion in 1973 to $33.5 billion in 1974.[j] It has been estimated that in 1975 their payments deficit may further deteriorate by $11.7 billion, to a total of $45.2 billion.

30. Comprehensive data on the flow of financial resources from oil-exporting countries are not collected on a regular basis. The data

[i] The major oil-exporting developing countries are defined here as the members of OPEC (Algeria, Ecuador, Gabon, Indonesia, Iran, Iraq, Kuwait, Libyan Arab Republic, Nigeria, Qatar, Saudi Arabia, United Arab Emirates and Venezuela) plus Bahrain, Brunei, Oman, and Trinidad and Tobago.

[j] About $15 billion of this deficit in 1974 was accounted for by the increased oil bill of these countries.

TABLE I.8

**Publicized Euro-currency credits to developing countries and territories, 1972-1975**

*(Million dollars)*

| | *1972* | *1973* | *1974* | *1974 (Jan-Sept)* | *1975 (Jan-Sept)* |
|---|---|---|---|---|---|
| Algeria | 257.0 | 1 352.5 | – | – | 100.0 |
| Argentina | 236.0 | 87.3 | 558.6 | 412.7 | 34.4 |
| Bahamas | – | 30.0 | – | – | – |
| Bahrain | – | 15.0 | – | – | – |
| Bolivia | – | 6.0 | 52.0 | 52.0 | 64.5 |
| Brazil | 577.4 | 718.1 | 1 667.5 | 925.7 | 1 425.3 |
| Colombia | 90.0 | 170.0 | 8.0 | 8.0 | 100.0 |
| Costa Rica | – | 11.0 | 10.0 | – | 46.0 |
| Cuba | 23.3 | 30.0 | 118.6 | 118.6 | 97.0 |
| Dominican Republic | 4.0 | 15.0 | 20.0 | 20.0 | – |
| Ecuador | – | 8.0 | – | – | 55.0 |
| Egypt | – | – | 230.0 | 230.0 | – |
| El Salvador | – | – | 50.0 | 15.0 | 30.0 |
| Gabon | 25.0 | 64.0 | 67.0 | 67.0 | 30.0 |
| Guinea | 40.0 | – | – | | |
| Guyana | – | 12.5 | 15.0 | – | 24.0 |
| Haiti | – | 10.0 | – | | |
| Hong Kong | 20.0 | 124.1 | 81.1 | 81.1 | 64.4 |
| India | – | 10.0 | – | | |
| Indonesia | 97.6 | 478.0 | 348.5 | 187.5 | 991.5 |
| Iran | 385.4 | 712.1 | 114.5 | 92.0 | 225.0 |
| Iraq | – | – | – | – | 500.0 |
| Israel | 10.0 | – | – | | |
| Ivory Coast | – | 95.0 | 63.0 | 63.0 | 50.0 |
| Jamaica | – | 35.6 | 95.0 | 95.0 | 53.0 |
| Kenya | 15.0 | 4.5 | – | | |
| Lebanon | – | 20.0 | 93.1 | 93.1 | – |
| Malawi | – | 5.3 | – | | |
| Malaysia | 76.1 | – | 140.0 | – | 225.0 |
| Mexico | 490.4 | 1 572 5 | 1 478.4 | 1 021.0 | 1 198.6 |
| Morocco | – | – | – | – | 200.0 |
| Nicaragua | 15.0 | 92.0 | 51.4 | 15.0 | 30.0 |
| Nigeria | – | – | 20.0 | – | – |
| Oman | – | 35.0 | 14.0 | – | 64.1 |
| Pakistan | – | – | – | – | 7.5 |
| Panama | 40.0 | 251.0 | 101.0 | 101.0 | 110.0 |
| Peru | 210.0 | 733.6 | 366.0 | 302.0 | 163.3 |
| Philippines | 61.3 | 178.5 | 883.0 | 785.5 | 85.1 |
| Republic of Korea | 30.0 | 142.0 | 264.0 | 171.8 | 301.2 |
| Saudi Arabia | – | 4.9 | – | | |
| Senegal | – | 65.0 | – | | |
| Sudan | – | – | 22.0 | 220.0 | 36.8 |
| Swaziland | 3.2 | – | – | | |
| Thailand | – | – | 9.7 | 9.7 | 5.0 |
| Trinidad and Tobago | – | 30.0 | 22..5 | 12.0 | 5.1 |
| United Arab Emirates | 18.3 | 330.0 | 151.0 | 146.0 | 6.3 |
| United Republic of Cameroon | – | – | 10.0 | 10.0 | – |
| Uruguay | – | – | – | – | 130.0 |
| Venezuela | 258.5 | 63.1 | 57.5 | 57.5 | 200.0 |
| Zaire | 90.0 | 286.9 | 71.3 | 71.3 | 27.0 |
| Zambia | 25.0 | 150.0 | – | – | 160.0 |
| Total | 3 098.5 | 7 948.7 | 7 451.7 | 5 381.6 | 6 845.1 |
| *of which* | | | | | |
| Oil-exporting countries | 1 041.8 | 3 042.7 | 772.5 | 550.0 | 2 171.9 |
| Non-oil-exporting countries | 2 056.7 | 4 906.0 | 6 679.2 | 4 831.6 | 4 673.2 |

*Source:* UNCTAD secretariat, based on data supplied by the World Bank.

TABLE I.9

**Non-sterling claims and liabilities of United Kingdom banks vis-à-vis developing countries: end-1973 and end-1974**

*(Million dollars)*

| | *Liabilities* | | *Claims* | |
|---|---|---|---|---|
| | *1973* | *1974* | *1973* | *1974* |
| Non-oil-exporting developing countries in. | | | | |
| Africa | 914 | 1 157 | 1 457 | 2 040 |
| Asia | 5 728 | 8 196 | 4 752 | 7 368 |
| Latin America | 8 942 | 9 622 | 15 002 | 15 182 |
| Total | 15 584 | 18 975 | 21 211 | 24 590 |
| Oil-exporting countries | 4 584 | 18 825 | 1 680 | 1 951 |
| All developing countries | 20 168 | 37 800 | 22 891 | 26 541 |

*Source:* UNCTAD secretariat, based on Bank of England, *Quarterly Bulletin*, vol. 15, No.1, (March 1975). table 23.

presented below are based largely on information provided by donor Governments themselves and the multilateral funds and institutions established by them, most of which are of recent origin.[k] It is evident that the techniques and channels for directing the financial flows from countries members of OPEC to other developing countries are in a phase of expansion characterized by considerable innovation. Consequently, it is difficult to assess with certainty the evolution of their lending policies or the magnitude of future flows. On the other hand, an examination of the OPEC lending effort during the past two years suggests that impressive progress has been made in translating commitments into disbursements. Moreover, the efforts of these countries, especially as regards the share of their concessional disbursements in total disbursements, as well as in relation to their GNP, compare favourably with the total flow from DAC member countries taken as a whole.

31. In 1974, commitments of total flows from the OPEC member countries to developing countries of Africa, Asia and Latin America and multilateral institutions increased sharply, and are estimated to have reached $11.6 billion, compared with $2.8 billion in 1973.[l] Of this total, $7.2 billion, or 62 per cent, were channelled through bilateral mechanisms. Moreover, of the total volume of commitments undertaken during 1974, about 64 per cent were on concessional terms. In that year, while 82 per cent of total bilateral commitments were concessional in character, only 34 per cent of commitments to multilateral institutions were undertaken on concessional terms. While the volume of oil-exporting countries' commitments has assumed impressive proportions since 1973, it should be noted that commitments at the onset of a development assistance programme provide only limited guidance to the prospective levels of disbursements.

32. In 1974, the oil-exporting countries disbursed $5.1 billion to developing countries and multilateral institutions, compared with $1.5 billion in 1973 (see table I.14). In that year, total flows, expressed as a proportion of their GNP, amounted to 2.8 per cent, an increase of 1.2 percentage points over the level attained in 1973. Available data on disbursements for the first half of 1975 indicate that they amounted to $3.2 billion. In 1973, 80 per cent of financial flows were channelled through bilateral mechanisms; by 1974, this share had declined to 64 per cent. In 1974, Kuwait and Saudi Arabia between them accounted for 46 per cent of all financial flows from OPEC member countries.

33. Of the total volume of disbursements in 1974, $3.4 billion were on concessional terms (see table I.15). In 1974, the assistance programmes of seven of the ten OPEC countries concerned would have met the 0.7 per cent target for official development assistance. During the first half of 1975, the level of disbursement of concessional financing from OPEC member countries, at $1.6 billion, appears to have continued at the high level attained in 1974.

34. A notable feature of OPEC members' lending policies is a marked concentration as regards the direction of their flows (see table I.16). Arab countries as a whole received about 94 per cent of total bilateral flows to developing countries and territories in 1973; by 1974, however, their share had declined to about 77 per cent. Of particular interest is the concentration of such flows on Egypt, Jordan and the Syrian Arab Republic, which together received 52.5 per cent of all bilateral transfers from OPEC member countries in 1974. Non-Arab countries in Africa received 3.4 and 5.0 per cent of total flows in 1973 and 1974, respectively. During the first half of 1975, of the estimated bilateral disbursements of $2.2 billion, this group of countries received about $18 million, equivalent to 0.8 per cent of the total bilateral disbursements in this period from OPEC member countries to developing countries and territories. Of the non-Arab countries in Asia, which received 15.7 per cent of the total bilateral disbursements in 1974, India and Pakistan together accounted for 13.7 per cent, or about 87 per cent of such flows to the whole of the developing countries of Asia. The concentration of OPEC flows on Arab countries reflects strong historical and cultural ties among Arab member countries of OPEC and recipient Arab countries. It is not surprising, therefore, that at the inception of OPEC assistance programmes, considerations of a more even distribution of flows are not paramount. On the other hand, it may be expected that, as their economic ties with other developing countries expand, and as the mechanisms and channels for disbursing assistance and loan capital evolve in OPEC countries, a more even and equitable distribution of flows will emerge.

[k] See *Financial solidarity for development: Efforts and institutions of the members of OPEC* (United Nations publication, Sales No. E.77.II.D.4).

[l] Excluding commitments to the IMF oil facility.

TABLE I.10

**Commitments of bilateral economic assistance to developing countries in Africa, Asia and Latin America from socialist countries of Eastern Europe, 1960-1974[a]**

*(Million dollars)*

| *Country* | *1960* | *1961* | *1962* | *1963* | *1964* | *1965* | *1966* | *1967* | *1968* | *1969* | *1970* | *1971* | *1972* | *1973* | *1974*[b] |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Bulgaria | – | 12 | – | 6 | 5 | 17 | 15 | 47 | 35 | 20 | 82 | 55 | 40 | 43 | 76 |
| Czechoslovakia | 115 | 146 | 1 | 20 | 118 | 43 | 192 | 88 | 200 | 37 | 55 | 14 | 100 | 303 | 100 |
| German Democratic Republic | 27 | 46 | – | – | 71 | 132 | – | 231 | 8 | 134 | 125 | 25 | 23 | .. | 46 |
| Hungary | 34 | 111 | – | 14 | 10 | 42 | 52 | 45 | 40 | 21 | 79 | 42 | 45 | 148 | 85 |
| Poland | 65 | 128 | 88 | 9 | 54 | 22 | – | 63 | 20 | 30 | 25 | 65 | 100 | 243 | 107 |
| Romania[c] | – | 100 | – | – | 70 | – | – | 14 | 45 | 132 | 10 | 141 | 385 | 36 | 330 |
| USSR | 582 | 302 | 214 | 205 | 608 | 330 | 1 033 | 333 | 368 | 402 | 197 | 677 | 921 | 1 236 | 904 |
| Total | 823 | 845 | 303 | 254 | 936 | 586 | 1 292 | 821 | 716 | 776 | 573 | 1 019 | 1 614 | 2 009 | 1 648 |

*Source:* Centre for Development Planning, Projections and Policies of the Department of Economic and Social Affairs of the United Nations Secretariat.

[a] Excluding commitments to Cuba and the Democratic Republic of Viet-Nam. National currencies were converted into dollars at the official rate of exchange.

[b] Preliminary data.

[c] While Romania extends credit facilities to developing countries, it considers itself a developing country also (see the statement by the representative of Romania to the Trade and Development Board at the first part of its fourteenth session (*Official Records of the Trade and Development Board, Fourteenth Session,* 393rd meeting, para. 98)).

TABLE I.11

**Net flows (disbursements) of resources from multilateral institutions[a] to developing countries in Africa, Asia and Latin America, 1969-1974**

*(Million dollars)*

| | *1969* | *1970* | *1971* | *1972* | *1973* I[b] | *1973* II[c] | *1974* I[b] | *1974* II[c] |
|---|---|---|---|---|---|---|---|---|
| *Soft loans and grants* | | | | | | | | |
| Asian Development Bank[d] | – | 1 | 4 | 8 | 27 | 11 | –26 | –15 |
| European Development Fund | 110 | 141 | 119 | 159 | 190 | 170 | 207 | 202 |
| International Development Association | 231 | 146 | 252 | 248 | 607 | 545 | 877 | 802 |
| Inter-American Development Bank[e] | 89 | 213 | 204 | –50 | –221 | –165 | 256 | 234 |
| United Nations agencies | 300 | 360 | 451 | 487 | 576 | 518 | 675 | 639 |
| Total | 729 | 860 | 1 030 | 853 | 1 179 | 1 078 | 1 989 | 1 862 |
| *Hard loans* | | | | | | | | |
| African Development Bank[f] | –6 | –2 | –3 | 7 | –1 | 14 | 0.5 | 6 |
| Asian Development Bank[d] | –50 | –15 | 38 | 36 | 44 | 49 | 76 | 78 |
| European Investment Bank | 10 | 12 | 7 | 14 | 7 | 7 | 14 | 12 |
| World Bank | 221 | 367 | 521 | 675 | 436 | 601 | –468 | 833 |
| International Finance Corporation | 47 | 49 | 37 | 23 | 74 | 47 | 115 | 77 |
| Inter-American Development Bank[e] | 77 | 83 | 81 | –90 | 0 | 12 | 230 | 221 |
| Total | 300 | 495 | 682 | 665 | 560 | 729 | –33 | 1 228 |
| *Soft loans, grants and hard loans* | | | | | | | | |
| African Development Bank[f] | –6 | –2 | –3 | 7 | –1 | 14 | 0.5 | 6 |
| Asian Development Bank[d] | –50 | –14 | 44 | 44 | 71 | 60 | 50 | 63 |
| European Development Fund | 110 | 141 | 119 | 159 | 190 | 170 | 207 | 202 |
| European Investment Bank | 10 | 12 | 7 | 14 | 7 | 7 | 14 | 12 |
| World Bank | 221 | 367 | 521 | 675 | 436 | 601 | –468 | 833 |
| International Development Association | 231 | 146 | 252 | 248 | 607 | 545 | 877 | 802 |
| International Finance Corporation | 47 | 49 | 37 | 23 | 74 | 47 | 115 | 77 |
| Inter-American Development Bank[e] | 166 | 296 | 285 | –140 | –221 | –153 | 486 | 455 |
| United Nations agencies | 300 | 360 | 451 | 487 | 576 | 518 | 675 | 639 |
| Total | 1 029 | 1 355 | 1 712 | 1 518 | 1 739 | 1 807 | 1 956 | 3 090 |
| *Soft loans and grants as percentage of total disbursements* | *71* | *63* | *60* | *56* | *68* | *60* | *102* | *60* |

*Source:* UNCTAD secretariat, based on reports of the multilateral institutions.

[a] 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), as well as participations and repayments where relevant. The data are also net of changes in holdings in developing countries of the funded debt of the World Bank and the Inter-American Development Bank. Negative figures indicate subscriptions, contributions and participations in excess of disbursements, net of repayments.

[b] The figures in this column include transactions of the multilateral institutions vis-à-vis the following oil-exporting countries: Algeria, Bahrain, Brunei, Ecuador, Gabon, Indonesia, Iran, Iraq, Kuwait, Libyan Arab Republic, Nigeria, Oman, Qatar, Saudi Arabia, Trinidad and Tobago, United Arab Emirates and Venezuela. Thus, the entry –$468 for the World Bank in 1974 indicates that loans, contributions and subscriptions payments made by developing countries (including oil-exporting countries) to the World Bank in 1974 exceeded net World Bank disbursements to developing countries by $468 million.

[c] The figures in this column exclude transactions of the multilateral institutions with the oil-exporting countries listed in footnote [b] above.

[d] The first year of transactions was 1966.

[e] Excluding Social Progress Trust disbursements.

[f] The first year of transaction was 1964.

TABLE I.12

**External resource flows and service payments on external public and publicly guaranteed debt of 79 developing countries, 1967-1973**

*(Million dollars)*

| *Region* | *1967* | *1968* | *1969* | *1970* | *1971* | *1972* | *1973* |
|---|---|---|---|---|---|---|---|
| *Africa*[a] | | | | | | | |
| Gross flows | 1 885 | 1 904 | 2 119 | 2 707 | 2 982 | 3 664 | 5 903 |
| Debt service | 568 | 649 | 779 | 901 | 998 | 1 287 | 2 002 |
| Net transfer | 1 317 | 1 254 | 1 341 | 1 806 | 1 984 | 2 377 | 3 901 |
| *Asia*[b] | | | | | | | |
| Gross flows | 4 169 | 4 050 | 4 113 | 3 903 | 4 512 | 5 101 | 5 440 |
| Debt service[c] | 872 | 929 | 1 147 | 1 397 | 1 523 | 1 773 | 2 076 |
| Net transfer | 3 297 | 3 121 | 2 966 | 2 506 | 2 989 | 3 328 | 3 364 |
| *Middle East*[d] | | | | | | | |
| Gross flows | 746 | 1 152 | 960 | 1 583 | 1 995 | 2 488 | 3 176 |
| Debt service | 259 | 372 | 489 | 631 | 805 | 1 318 | 1 592 |
| Net transfer | 487 | 781 | 470 | 952 | 1 190 | 1 170 | 1 585 |
| *Western hemisphere*[e] | | | | | | | |
| Gross flows | 3 089 | 3 259 | 3 599 | 4 248 | 4 119 | 5 970 | 7 478 |
| Debt service | 1 797 | 2 132 | 2 227 | 2 491 | 2 701 | 3 051 | 4 116 |
| Net transfer | 1 292 | 1 127 | 1 372 | 1 757 | 1 418 | 2 919 | 3 361 |
| *Total, 79 developing countries* | | | | | | | |
| Gross flows | 9 888 | 10 364 | 10 790 | 12 440 | 13 607 | 17 223 | 21 997 |
| Debt service | 3 495 | 4 081 | 4 641 | 5 420 | 6 027 | 7 429 | 9 786 |
| Net transfer | 6 393 | 6 283 | 6 149 | 7 020 | 7 580 | 9 794 | 12 211 |

*Source:* UNCTAD secretariat, based on data supplied by the World Bank.

[a] Algeria, Botswana, Burundi, Central African Republic, Chad, Congo, Dahomey, Egypt, Ethiopia, Gabon, Gambia, Ghana, Ivory Coast, Kenya, Lesotho, Liberia, Madagascar, Malawi, Mali, Mauritania, Mauritius, Morocco, Niger, Nigeria, Rwanda, Senegal, Sierra Leone, Somalia, Sudan, Swaziland, Togo, Tunisia, Uganda, United Republic of Cameroon, United Republic of Tanzania, Upper Volta, Zaire, Zambia, and the East African Community.

[b] Afghanistan, Bangladesh, Burma, Fiji, India, Indonesia, Malaysia, Pakistan, Philippines, Republic of Korea, Republic of South Viet-Nam, Singapore, Sri Lanka and Thailand.

[c] Excluding publicly-guaranteed private debt of the Philippines.

[d] Iran, Iraq, Israel, Jordan and Syrian Arab Republic.

[e] Argentina, Bolivia, Brazil, Chile, Colombia, Costa Rica, Dominican Republic, Ecuador, El Salvador, Guatemala, Guyana, Honduras, Jamaica, Mexico, Nicaragua, Panama, Paraguay, Peru, Trinidad and Tobago, Uruguay and Venezuela.

TABLE I.13

**Outflow of profits[a] from 55 developing countries, 1969-1973**

*(Million dollars)*

| *Region* | *1969* | *1970* | *1971* | *1972* | *1973* |
|---|---|---|---|---|---|
| Non-oil-exporting countries . . . . . . . . . . . . . | 1 825 | 1 765 | 1 648 | 1 760 | 2 171 |
| *in:* | | | | | |
| Africa[b] . . . . . . . . . . . . . . . . . . . . . . | 135 | 136 | 177 | 188 | 245 |
| Asia[c] . . . . . . . . . . . . . . . . . . . . . . . | 239 | 217 | 237 | 232 | 378 |
| Middle East[d] . . . . . . . . . . . . . . . . . . . | 55 | 56 | 41 | 41 | 42 |
| Western hemisphere[e] . . . . . . . . . . . . . . . | 1 396 | 1 356 | 1 194 | 1 299 | 1 507 |
| Oil-exporting countries[f] . . . . . . . . . . . . . . . | 3 857 | 4 118 | 5 478 | 6 437 | 9 644 |
| Total, 55 developing countries . . . . . . . . . . . | 5 682 | 5 883 | 7 126 | 8 196 | 11 815 |

*Source*: IMF, *Balance of Payments Yearbook*, various issues.

[a] Gross payments of direct investment income (debit entry item 6.2 of IMF balance-of-payments standard presentation) by developing countries reporting to IMF.

[b] Central African Republic, Chad, Egypt, Ethiopia, Ghana, Ivory Coast, Madagascar, Malawi, Mauritius, Rwanda, Senegal, Sierra Leone, Sudan, Tunisia, Uganda and Zaire.

[c] Malaysia, Philippines, Republic of South Viet-Nam, Sri Lanka and Thailand.

[d] Democratic Yemen, Israel and Jordan.

[e] Argentina, Barbados, Bolivia, Brazil, Chile, Colombia, Costa Rica, Dominican Republic, El Salvador, Guatemala, Guyana, Haiti, Honduras, Jamaica, Mexico, Nicaragua, Panama, Paraguay, Peru, Surinam and Trinidad and Tobago.

[f] Algeria, Ecuador, Indonesia, Iran, Iraq, Libyan Arab Republic, Nigeria, Saudi Arabia and Venezuela.

TABLE I.14

**Total flow (disbursements)[a] of resources from OPEC member countries[b] to developing countries of Africa, Asia and Latin America and to multilateral institutions**

*(Million dollars)*

| | *Bilateral* | | | *Multilateral*[c] | | | *Total* | | | *Total flow as percentage of GNP* | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | *1973* | *1974* | *First half of 1975* | *1973* | *1974* | *First half of 1975* | *1973* | *1974* | *First half of 1975* | *1973* | *1974* |
| Algeria | 21.6 | 5.2 | – | 0.6 | 20.4 | – | 22.2 | 25.6 | – | 0.27 | 0.22 |
| Iran | 0.8 | 358.1 | 126.0 | 4.6 | 311.2 | 13.8 | 5.4 | 669.3 | 139.8 | 0.02 | 1.55 |
| Iraq[d] | 3.0 | 389.3 | 6.0 | 0.7 | 78.6 | 7.5 | 3.7 | 467.9 | 13.5 | 0.06 | 3.63 |
| Kuwait | 363.0 | 750.8 | 1 334.3 | 167.7 | 76.5 | 30.0 | 530.7 | 827.3 | 1 364.3 | 7.37 | 4.30 |
| Libyan Arab Republic | 317.5 | 154.5 | 132.5 | 107.4 | 47.9 | 53.5 | 424.9 | 202.4 | 186.0 | 7.17 | 1.70 |
| Nigeria | 4.3 | 0.9 | – | 2.3 | 128.6 | 147.5 | 6.6 | 129.5 | 147.5 | 0.05 | 0.58 |
| Qatar | 93.7 | 218.9[e] | 161.2 | 0.3 | 15.7 | 5.0 | 94.0 | 234.6[e] | 166.2 | 15.70 | 11.74 |
| Saudi Arabia[d] | 290.4 | 889.7 | 121.5 | 15.7 | 626.7 | 491.4 | 306.1 | 1 516.4 | 612.9 | 2.94 | 4.31 |
| United Arab Emirates | 82.5 | 457.2 | 242.1 | 3.0 | 119.5 | 13.6 | 85.5 | 576.7 | 255.7 | 3.56 | 7.69 |
| Venezuela | – | 15.0 | (85.9) | 1.0 | 435.6 | 222.6 | 1.0 | 450.6 | 308.5 | 0.01 | 2.47 |
| Total disbursements | 1 176.8 | 3 239.6 | 2 209.5 | 303.3 | 1 860.7 | 984.9 | 1 480.1 | 5 100.3 | 3 194.4 | 1.55 | 2.77 |

*Source* : UNCTAD secretariat, based on data provided by donor countries, the OECD secretariat and the World Bank.

NOTE. The absence of a comprehensive data-collecting system, both within each of the donor countries and between them and any international agency, precludes any claim being made as to the completeness and accuracy of the data presented here.

[a] Disbursements are calculated by converting non-dollar operations into United States dollars at the average market rate prevailing in the year in question, as published in IMF, *International Financial Statistics*, and United Nations, *Bulletin of Statistics*.

[b] The data may include military support flows to certain countries.

[c] Excluding the IMF oil facility.

[d] Provisional.

[e] Includes disbursements of non-concessional funds in 1973, for which separate data are not available.

TABLE I.15

**Concessional financial flows (disbursements)[a] from OPEC member countries[b] to developing countries of Africa, Asia and Latin America and to multilateral institutions, 1973-1975**

*(Million dollars)*

| | Bilateral | | | Multilateral | | | Total | | | Total flow as percentage of GNP | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | *1973* | *1974* | *First half of 1975* | *1973* | *1974* | *First half of 1975* | *1973* | *1974* | *First half of 1975* | *1973* | *1974* |
| Algeria | 21.6 | 5.2 | – | 0.6 | 20.4 | – | 22.2 | 25.6 | – | 0.27 | 0.22 |
| Iran | 0.8 | 358.1 | 126.0 | 1.6 | 22.4 | – | 2.4 | 380.5 | 126.0 | 0.01 | 0.88 |
| Iraq[c] | 3.0 | 389.3 | 6.0 | 0.7 | 78.6 | 7.5 | 3.7 | 467.9 | 13.5 | 0.06 | 3.63 |
| Kuwait | 337.6 | 582.1 | 637.9 | 0.9 | 66.3 | 29.0 | 338.5 | 648.4 | 666.9 | 4.70 | 3.37 |
| Libyan Arab Republic | 234.2 | 120.0 | 79.5 | 1.1 | 43.9 | 44.3 | 235.3 | 163.9 | 123.8 | 3.96 | 1.38 |
| Nigeria | 4.3 | 0.9 | – | 1.2 | 9.1 | – | 5.5 | 10.0 | – | 0.04 | 0.04 |
| Qatar | 93.7 | 208.4 | 161.2 | 0.3 | 15.7 | 5.0 | 94.0 | 224.1 | 166.2 | 15.67 | 11.21 |
| Saudi Arabia[c] | 290.4 | 874.7 | 121.5 | 0.7 | 88.4 | 98.0 | 291.1 | 963.1 | 219.5 | 2.80 | 2.75 |
| United Arab Emirates | 82.5 | 457.2 | 242.1 | 0.5 | 40.5 | 3.0 | 83.0 | 497.7 | 245.1 | 3.46 | 6.64 |
| Venezuela | – | 15.0 | – | 1.0 | 31.0 | 23.4 | 1.0 | 46.0 | 23.4 | 0.01 | 0.25 |
| Total disbursements | 1 068.1 | 3 010.9 | 1 374.2 | 8.6 | 416.3 | 210.2 | 1 076.7 | 3 427.2 | 1 584.4 | 1.13 | 1.86 |

*Source* : UNCTAD secretariat, based on data provided by donor countries, the OECD secretariat and the World Bank.

NOTE. The absence of a comprehensive data-collecting system, both within each of the donor countries and between them and any international agency, precludes any claim being made as to the completeness and accuracy of the data presented here.

[a] Disbursements are calculated by converting non-dollar operations into United States dollars at the average market rate prevailing in the year in question, as published in IMF, *International Financial Statistics*, and United Nations, *Bulletin of Statistics*.

[b] The data may include military support flows to certain countries.

[c] Provisional.

TABLE I.16

**Total bilateral flows from countries members of OPEC to developing countries and territories**

*(Billion dollars)*

| Region | Disbursements 1973 | Disbursements 1974 | Disbursements First half of 1975 | Per cent of total 1973 | Per cent of total 1974 | Per cent of total First half of 1975 |
|---|---|---|---|---|---|---|
| *Arab countries*[a] | *1 102.4* | *2 505.7* | *1 746.1* | *93.7* | *77.4* | *79.1* |
| of which | | | | | | |
| Egypt | 580.1 | 934.8 | 1 154.8 | 49.3 | 28.9 | 52.3 |
| Jordan | 94.4 | 190.2 | 75.1 | 8.0 | 5.9 | 3.4 |
| Syrian Arab Republic | 182.5 | 575.0 | 198.3 | 15.5 | 17.7 | 9.0 |
| *Other Asian countries*[b] | *34.3* | *509.1* | *274.7* | *2.9* | *13.7* | *12.4* |
| of which | | | | | | |
| India | – | 243.0 | – | – | 7.5 | – |
| Pakistan | 33.8 | 200.8 | 237.1 | 2.8 | 6.2 | 10.7 |
| *Other African countries*[c] | *39.9* | *161.8* | *18.1* | *3.4* | *5.0* | *0.8* |
| *Western hemisphere*[d] | *0.1* | *55.0* | *170.4* | – | *1.7* | *7.7* |
| of which | | | | | | |
| Argentina | – | – | 50.0 | – | – | 2.3 |
| Brazil | – | 25.0 | 23.0 | – | 0.8 | 1.0 |
| Guyana | – | 30.0 | – | – | 0.9 | – |
| *Unallocated* | *0.1* | *8.0* | *0.2* | – | *0.2* | – |
| *Total* | *1 176.8* | *3 239.6* | *2 209.4* | *100.0* | *100.0* | *100.0* |
| of which | | | | | | |
| Concessional | 1 068.1 | 3 010.9 | 1 374.1 | 90.8 | 92.9 | 62.2 |
| Non-concessional | 108.7 | 228.7 | 835.3 | 9.2 | 7.1 | 37.8 |

*Source:* UNCTAD secretariat estimates.

[a] Algeria, Bahrein, Democratic Yemen, Egypt, Jordan, Lebanon, Libyan Arab Republic, Mauritania, Morocco, Oman, Somalia, Sudan, Syrian Arab Republic, Tunisia, United Arab Emirates, Yemen.

[b] Afghanistan, Bangladesh, Hong Kong, India, Indonesia, Pakistan, Republic of Korea, Sri Lanka.

[c] Benin, Burundi, Chad, Equatorial Guinea, Ethiopia, Gambia, Guinea, Guinea-Bissau, Madagascar, Mali, Niger, Rwanda, Senegal, Togo, Uganda, Uper Volta, Zaire, Zambia.

[d] Argentina, Bermuda, Brazil, Costa Rica, El Salvador, Guatemala, Guyana, Honduras, Mexico, Nicaragua, Panama.

## ANNEX II

### External payments and receipts by developing countries associated with public and publicly-guaranteed debt

1. This annex provides detailed information on the indebtedness situation of developing countries. The final year considered is 1973, which is still the latest year for which comprehensive data ara available for a broad sample of developing countries.

2. Three sources of information on capital flows and associated payments are available. The Development Assistance Committee of OECD publishes data on total gross disbursements by DAC member countries of official flows and of some, but not all, private flows. DAC also publishes data on the total net flow of financial resources (gross disbursements less amortization payments and capital disinvestment) to multilateral institutions and developing countries as a whole, and provides information on the distribution among 141 developing countries and territories of total net financial flows from DAC member countries and multilateral institutions. DAC also publishes information on the total receipts of interest payments by member countries arising from official, but not private, transactions. Detailed information on debt and debt-service payments of 141 developing countries and territoires is collected by OECD in connexion with the joint OECD-World Bank "Expanded Reporting System". OECD has published information on the external debt and debt-service payments in 1972 of 141 countries and territories.[a] This information includes data on short-term debt outstanding and the stock of foreign private direct investmentiin developing countries.

[a] See OECD, *Total external liabilities of developing countries* (Paris 1974), which contains, in paras. 1-4, a discussion of the comparability of the OECD and World Bank data.

3. The balance-of-payments statistics compiled by IMF, and published in the *Balance of Payments Yearbook,* provide comprehensive information on the magnitude of financial flows in any given year resulting from both long and short-term capital transactions of the countries covered. These data cover both official and private transactions, but do not allow fine distinctions to be drawn between categories of transactions (such as borrowing from banks and export credits), nor do they provide information on the stock of indebtedness. The number of developing countries for which such balance-of-payments data are collected and presented at the necessary level of detail is considerably smaller than the number of countries covered in the DAC statistics.

4. Information compiled by the World Bank in its Debtor Reporting System provides considerable detail regarding payments flows and the associated stock of indebtedness. The coverage of the Bank's data, however, is restricted to external public debt, which is defined as "debt repayable to external creditors in foreign currency, goods or services, with an original or extended maturity of more than one year, which is a direct obligation of, or has repayment guaranteed by, a public body in the borrowing country".[b] Thus, purely private transactions, transactions giving rise to short-term debt, and equity investments are not included in the World Bank statistics.

5. As may be inferred from the above, no comprehensive body of information is available from which a complete, detailed survey of the debt and debt-servicing situation of developing countries may be prepared; each of the reporting systems at present available has deficiencies in covereage which limit, to a greater or lesser extent, its usefulness.

6. The discussion which follows is based upon information compiled by the World Bank through its Debtor Reporting System, since this is the only source of information available to the UNCTAD secretariat covering, in adequate detail, the debt and debt-service experience of developing countries.

### A. Transactions during the period 1965-1972

7. Table II.1 shows outstanding indebtedness, disbursements and service payments associated with external public debt, as reported by the World Bank. As may be seen from that table, gross disbursements to 86 developing countries rose at an average annual rate of 11 per cent during the period 1965-1972. Debt-service payments grew even more rapidly, however, so that the net transfer of resources expanded at an annual average rate of about 9 per cent. During the same period, debt outstanding rose by 15 per cent per annum, and stood at $100 billion by the end of 1972.

8. The over-all experience of a sample of 67 non-oil-exporting developing countries[c] was roughly similar. Within this sample, however, the experience of countries in various income groups varied noticeably. Thus, the poorest countries (those with a *per capita* GNP of $200 or less[d] and accounting for about one-half of the population of the countries covered) experienced an average annual growth of disbursements of 9 per cent between 1965 and 1972. Debt-service payments by this group of countries grew at a little under double that rate, however, so that the net transfer of resources to these countries expanded at an average annual rate of only 6 per cent. On the other hand, disbursements and the net transfer of resources to other groups of countries rose more rapidly over the same period, particularly in the case of countries with a *per capita* GNP above $400. In some instances, however, this advance was concentrated in the latter part of the period. Thus, countries in two *per capita,* GNP groups ($201-$300 and $401-$800) experienced virtual stagnation in the net transfer of resources over the period 1965-1971, and then a rapid expansion of net transfer in 1972.

9. There were considerable differences in the behaviour of the various classes of transactions over the period 1965-1972 (see table II.2). For the sample of 67 developing countries, bilateral official disbursements rose at an average annual rate of 9 per cent, while disbursements to these countries by multilateral institutions grew at an average annual rate of 12 per cent and disbursements by private creditors at an annual rate of about 20 per cent. Debt-service payments to official bilateral and multilateral agencies rose more rapidly than disbursements by these agencies, however, while such payments to private creditors advanced less rapidly than disbursements from such sources. Consequently, the net transfer of resources associated with bilateral official and multilateral sources of external financing grew at annual rates of 7 per cent and 10 per cent respectively, while the net transfer associated with flows from private sources rose at an average annual rate exceeding 30 per cent.

10. These differential rates of expansion of disbursements and debt-service payments have altered the relative contribution of the different categories of transactions to the total net resource transfer to developing countries. Thus, whereas transactions vis-à-vis private creditors accounted for about 5 per cent of the total net resource transfer of 67 developing countries in 1965, such transactions accounted for about one-quarter in 1972.

11. Flows from private creditors have, certainly, been directed mainly towards the less poor among the 67 countries; more than three quarters of the disbursements of private credits in 1972 were to countries with *per capita* GNP exceeding $400. This, together with the rapid expansion of such credits, helps to explain the fact that the net transfer of resources to countries with *per capita* GNP above $400 more than doubled from 1965 to 1972, while the net transfer to countries with *per capita* GNP of $400 and below expanded at less than half that rate over the same period.

### B. Transactions in 1973

12. Table II.1 also presents information on the principal variables relating to debt for the year 1973. As may be seen from that table, for a sample of 86 countries, total disbursements, debt-service payments and the net transfer of resources advanced strongly during 1973, reaching levels more than one-fifth above those recorded in 1972. A the same time, outstanding debt rose by almost one-fifth, and stood at $119 billion at the end of 1973.

13. As regards the experience of countries in various income groups, a noteworthy feature of 1973 was the strong expansion in disbursements to countries with *per capita* GNP of $200 or less, although at a slower pace than in 1971-1972. This, together with a slackening in the growth of debt-service payments, allowed the net transfer to this group of countries to grow by 14.5 per cent in 1973, less than the 21 per cent expansion between 1971 and 1972 but significantly above the average annual increase of 6 per cent during 1965-1972.

14. Countries with a *per capita* GNP of $201-$300 experienced a decline in disbursements in 1973. This, together with a sharp expansion of debt-service payments, brought about a sharp drop in the net transfer of resources to those countries; indeed, the net transfer in 1973 was at about the same level as that recorded in 1965.

15. In 1973, countries with a *per capita* GNP of $301-$400 experienced a decline in disbursements. This, even with a decline in the rate of growth of debt-service payments, led to a decline in the net transfer of resources. As in the period 1965-1972, countries in the relatively high income groups experienced rapid growth in both disbursements and net transfer. Indeed, the experience of countries with a *per capita* GNP of $801 and above was quite remarkable in this respect; in 1973, both disbursements and the net transfer of resources stood more than 40 per cent above the levels recorded during the preceding year.

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[b] The World Bank further states that "most military debts are not reported, although a few countries have included such obligations in their data" (see World Bank, *Annual Report 1972* (Washington D.C., 1972), p. 79).

[c] 67 is the largest number of non-oil-exporting countries for which detailed information on debt and debt servicing is available.

[d] For the country composition of the various income groups, see table II-1, foot-notes (g) and (i) to (m).

TABLE II.1

**External resource flows, external public debt and debt service thereon of developing countries, 1965-1973[a]**

| | Total disbursements[b] | | Debt-service payments | | Net transfer[c] | | Outstanding debt (end of year) | |
|---|---|---|---|---|---|---|---|---|
| | Million dollars | Per cent | Million dollars | Per cent | Million dollars | Per cent | Million dollars | Per cent |
| I. *Sample of 86 countries*[d] | | | | | | | | |
| 1965 | 9 005 | | 3 230 | | 5 775 | | 38 067 | |
| 1971 | 14 897 | | 6 938 | | 7 959 | | 86 132 | |
| 1972 | 18 805 | | 8 389 | | 10 416 | | 99 994 | |
| 1973 | 23 740 | | 11 002 | | 12 738 | | 118 893 | |
| Annual average rate of growth: | | | | | | | | |
| 1965-1972 | | 11.1 | | 14.6 | | 8.8 | | 14.8 |
| 1972-1973 | | 26.2 | | 31.2 | | 22.3 | | 18.9 |
| II. *Sample of 73 countries* | | | | | | | | |
| 1965 | 6 066 | | 2 375 | | 3 691 | | 22 294 | |
| 1971 | 12 526 | | 6 148 | | 6 378 | | 62 991 | |
| 1972 | 16 798 | | 7 383 | | 9 416 | | 76 494 | |
| 1973 | 19 211 | | 9 300 | | 9 911 | | 89 391 | |
| Annual average rate of growth: | | | | | | | | |
| 1965-1972 | | 15.7 | | 17.6 | | 14.3 | | 19.3 |
| 1972-1973 | | 14.4 | | 26.0 | | 5.3 | | 16.9 |
| *of which :* | | | | | | | | |
| (a) *Oil-exporting countries*[e] (6 countries) | | | | | | | | |
| 1965 | 340 | | 148 | | 192 | | 1 303 | |
| 1971 | 1 885 | | 777 | | 1 107 | | 9 190 | |
| 1972 | 2 939 | | 1 250 | | 1 689 | | 11 885 | |
| 1973 | 2 930 | | 1 549 | | 1 382 | | 14 150 | |
| Annual average rate of growth: | | | | | | | | |
| 1965-1972 | | 36.1 | | 35.7 | | 36.4 | | 37.1 |
| 1972-1973 | | –0.3 | | 23.9 | | –18.2 | | 19.1 |
| (b) *Non-oil-exporting countries* (67 countries) | | | | | | | | |
| 1965 | 5 726 | | 2 227 | | 3 499 | | 20 991 | |
| 1971 | 10 641 | | 5 370 | | 5 271 | | 53 801 | |
| 1972 | 13 860 | | 6 133 | | 7 727 | | 64 610 | |
| 1973 | 16 281 | | 7 751 | | 8 530 | | 75 241 | |
| Annual average rate of growth: | | | | | | | | |
| 1965-1972 | | 13.5 | | 15.6 | | 12.0 | | 17.4 |
| 1972-1973 | | 17.5 | | 26.4 | | 10.4 | | 16.5 |
| *of which:* | | | | | | | | |
| *Countries with* per capita *GNP*[f] *of $100 or less*[g] | | | | | | | | |
| 1965[h] | 287 | | 8 | | 279 | | 127 | |
| 1971 | 589 | | 92 | | 498 | | 2 173 | |
| 1972 | 1 066 | | 131 | | 935 | | 2 463 | |
| 1973 | 1 422 | | 156 | | 1 266 | | 3 277 | |
| Annual average rate of growth: | | | | | | | | |
| 1965-1972 | | 20.6 | | 49.6 | | 18.9 | | 52.8 |
| 1972-1973 | | 33.4 | | 19.4 | | 35.4 | | 33.1 |
| *Countries with* per capita *GNP*[f] *of $101-$200*[i] | | | | | | | | |
| 1965[h] | 1 672 | | 422 | | 1 250 | | 7 858 | |
| 1971 | 2 272 | | 842 | | 1 431 | | 16 635 | |
| 1972 | 2 438 | | 1 042 | | 1 396 | | 17 995 | |
| 1973 | 2 437 | | 1 034 | | 1 403 | | 19 419 | |
| Annual average rate of growth: | | | | | | | | |
| 1965-1972 | | 5.5 | | 13.8 | | 1.6 | | 12.6 |
| 1972-1972 | | – | | –0.7 | | 0.5 | | 7.9 |

TABLE II.1 (*continued*)

| | Total disbursements[b] | | Debt-service payments | | Net transfer[c] | | Outstanding debt (end of year) | |
|---|---|---|---|---|---|---|---|---|
| | Million dollars | Per cent | Million dollars | Per cent | Million dollars | Per cent | Million dollars | Per cent |
| *Countries with* per capita *GNP*[f] *of $201-$300*[j] | | | | | | | | |
| 1965[h] | 618 | | 119 | | 500 | | 1 151 | |
| 1971 | 809 | | 301 | | 508 | | 3 749 | |
| 1972 | 1 103 | | 356 | | 747 | | 4 319 | |
| 1973 | 1 019 | | 503 | | 516 | | 5 053 | |
| Annual average rate of growth: | | | | | | | | |
| 1965-1972 | | 8.6 | | 17.0 | | 5.9 | | 20.8 |
| 1972-1973 | | −7.6 | | 41.3 | | −30.9 | | 17.0 |
| *Countries with* per capita *GNP*[f] *of $301-$400*[k] | | | | | | | | |
| 1965[h] | 591 | | 186 | | 406 | | 1 625 | |
| 1971 | 1 396 | | 571 | | 825 | | 6 268 | |
| 1972 | 1 509 | | 623 | | 886 | | 7 366 | |
| 1973 | 1 480 | | 687 | | 793 | | 8 562 | |
| Annual average rate of growth: | | | | | | | | |
| 1965-1972 | | 14.3 | | 18.9 | | 11.8 | | 24.1 |
| 1972-1973 | | −1.9 | | 10.1 | | −10.5 | | 16.2 |
| *Countries with* per capita *GNP*[f] *of $401-$800*[l] | | | | | | | | |
| 1965[h] | 1 209 | | 360 | | 849 | | 3 678 | |
| 1971 | 2 287 | | 1 353 | | 934 | | 13 129 | |
| 1972 | 3 708 | | 1 477 | | 2 232 | | 15 277 | |
| 1973 | 4 235 | | 1 948 | | 2 287 | | 18 896 | |
| Annual average rate of growth: | | | | | | | | |
| 1965-1972 | | 17.4 | | 22.4 | | 14.8 | | 22.6 |
| 1972-1973 | | 14.2 | | 31.9 | | 2.5 | | 23.7 |
| *Countries with* per capita *GNP*[f] *of $ 801 and above*[m] | | | | | | | | |
| 1965[h] | 1 350 | | 1 134 | | 216 | | 6 554 | |
| 1971 | 3 287 | | 2 212 | | 1 057 | | 11 847 | |
| 1972 | 4 037 | | 2 505 | | 1 532 | | 17 190 | |
| 1973 | 5 689 | | 3 424 | | 2 265 | | 20 034 | |
| Annual average rate of growth: | | | | | | | | |
| 1965-1972 | | 16.9 | | 12.0 | | 32.3 | | 14.8 |
| 1972-1973 | | 40.9 | | 36.7 | | 47.8 | | 16.6 |

*Source:* UNCTAD secretariat, based on data supplied by the World Bank.

NOTE. Figures may not add to totals owing to rounding, unallocated flows and adjustments for liabilities due to nationalization.

[a] The World Bank defines external public debt as "debt repayable to external creditors in foreign currency, goods or services, with an original or extended maturity of more than one year, which is a direct obligation of, or has repayment guaranteed by, a public body in the borrowing country. Most military debts are not reported, although a few countries have included such obligations in their data" (see World Bank/IDA, *Annual Report, 1972* (Washington, D.C., 1972), p.79).

[b] Gross loans and grants received. Grants consist of grant and grant-like contributions by DAC member countries and grants by multilateral agencies, as compiled by OECD, as well as disbursements by the Inter-American Development Bank on loans repayable in the recipients' currencies.

[c] Gross loans and grants minus debt-service payments.

[d] *Less than 86 countries in 1965; for details* see World Bank/IDA, *Annual Report*, "Statistical annex", various issues.

[e] Ecuador, Gabon, Indonesia, Iran, Iraq and Venezuela.

[f] *Per capita* GNP in 1972 in current US dollars.

[g] Afghanistan, Bangladesh, Burundi, Ethiopia, Mali, Nepal, Rwanda, Somalia, Upper Volta, Niger and Zaire.

[h] The following countries are not included in the data for 1965: Brazil, Fiji, Israel, Lebanon, Madagascar, Nepal, Rwanda and Togo.

[i] Central African Republic, Haiti, India, Kenya, Lesotho, Madagascar, Malawi, Pakistan, (including Bangladesh prior to 1972), Sierra Leone, Sri Lanka, Sudan, Togo, Uganda and United Republic of Tanzania.

[j] Bolivia, Botswana, Ghana, Morocco, Philippines, Senegal, Swaziland, Thailand and United Republic of Cameroon.

[k] El Salvador, Guyana, Honduras, Ivory Coast, Mauritius, Paraguay, Turkey and Republic of Korea.

[l] Brazil, Chile, Costa Rica, Colombia, Dominican Republic, Fiji, Guatemala, Malaysia, Nicaragua, Peru, Tunisia and Uruguay.

[m] Argentina, Cyprus, Greece, Israel, Jamaica, Lebanon, Malta, Mexico, Panama, Singapore, Spain, Trinidad and Tobago and Yugoslavia.

TABLE

**External resource flows and service payments on external**

*(Million*

| | *Disbursements*[b] | | | | *Amortization* | | | |
|---|---|---|---|---|---|---|---|---|
| | *1965* | *1971* | *1972* | *1973* | *1965* | *1971* | *1972* | *1973* |
| I. *Sample of 67 non-oil-exporting developing countries* | 5 726.1 | 10 641.1 | 13 859.7 | 16 280.8 | 1 647.0 | 3 641.6 | 4 152.0 | 5 202.3 |
| Official | 3 619.5 | 5 626.7 | 6 499.3 | 6 785.9 | 481.1 | 1 135.3 | 1 234.2 | 1 520.9 |
| *of which:* | | | | | | | | |
| DAC | 3 450.5 | 5 271.7 | 5 977.6 | 6 311.3 | 405.2 | 939.0 | 990.9 | 1 278.2 |
| Other | 169.5 | 355.0 | 521.7 | 474.6 | 75.9 | 196.3 | 243.3 | 242.7 |
| Multilateral | 727.7 | 1 356.3 | 1 618.1 | 2 057.3 | 205.6 | 398.6 | 440.8 | 434.0 |
| Private: | | | | | | | | |
| Suppliers' credits | 570.8 | 1 016.3 | 1 405.6 | 1 311.6 | 488.0 | 981.1 | 1 108.2 | 1 081.6 |
| Private banks | 546.2 | 1 842.5 | 3 097.4 | 4 849.0 | 366.7 | 706.2 | 857.7 | 1 496.8 |
| Other private | 254.7 | 704.1 | 1 133.7 | 1 200.9 | 104.9 | 331.4 | 402.9 | 544.3 |
| *Countries with* per capita *GNP of $100 and below* | 286.8 | 589.3 | 1 065.7 | 1 421.8 | 5.7 | 62.0 | 95.3 | 101.7 |
| Official | 267.3 | 420.8 | 724.7 | 991.3 | 1.8 | 26.8 | 41.2 | 37.7 |
| *of which:* | | | | | | | | |
| DAC | 262.9 | 375.8 | 663.0 | 859.1 | 0.5 | 12.1 | 14.2 | 20.0 |
| Other | 4.4 | 45.0 | 61.7 | 132.2 | 1.3 | 14.7 | 27.0 | 17.7 |
| Multilateral | 9.0 | 32.1 | 50.6 | 127.8 | 1.5 | 4.6 | 4.7 | 4.2 |
| Private: | | | | | | | | |
| Suppliers' credits | 5.7 | 43.7 | 179.7 | 104.3 | 2.4 | 24.4 | 32.8 | 36.4 |
| Private banks | 4.9 | 92.7 | 110.7 | 191.6 | 0.0 | 5.5 | 16.0 | 22.8 |
| Other private | 0.0 | 0.0 | 0.0 | 2.7 | 0.0 | 0.6 | 0.6 | 0.6 |
| *Countries with* per capita *GNP of $101-$200* | 1 671.5 | 2 272.4 | 2 437.5 | 2 437.2 | 243.8 | 516.7 | 644.5 | 642.4 |
| Official | 1 239.1 | 1 842.5 | 1 913.4 | 1 746.0 | 120.5 | 275.4 | 387.0 | 388.4 |
| *of which:* | | | | | | | | |
| DAC | 1 136.2 | 1 746.9 | 1 749.2 | 1 624.3 | 103.9 | 178.8 | 248.4 | 268.7 |
| Other | 102.8 | 95.6 | 164.2 | 121.7 | 16.6 | 96.6 | 138.6 | 119.7 |
| Multilateral | 318.8 | 263.6 | 396.1 | 532.5 | 58.7 | 90.0 | 94.0 | 91.9 |
| Private: | | | | | | | | |
| Suppliers' credits | 91.3 | 114.9 | 69.3 | 68.6 | 53.4 | 93.4 | 108.6 | 102.1 |
| Private banks | 21.3 | 41.5 | 47.2 | 89.9 | 7.0 | 44.6 | 41.9 | 47.5 |
| Other private | 1.0 | 3.3 | 3.1 | 0.2 | 4.3 | 8.3 | 6.6 | 7.9 |
| *Countries with* per capita *GNP of $201-$300* | 618.0 | 809.0 | 1 102.5 | 1 018.6 | 88.6 | 183.9 | 241.7 | 362.6 |
| Official | 435.9 | 564.2 | 793.7 | 752.6 | 17.4 | 74.8 | 107.9 | 146.8 |
| *of which:* | | | | | | | | |
| DAC | 417.4 | 531.1 | 755.9 | 739.6 | 16.7 | 65.2 | 99.7 | 136.5 |
| Other | 18.4 | 33.1 | 37.8 | 13.0 | 0.7 | 9.6 | 8.2 | 10.3 |
| Multilateral | 39.4 | 130.1 | 151.8 | 156.4 | 8.8 | 29.9 | 28.1 | 39.4 |
| Private: | | | | | | | | |
| Suppliers' credits | 40.0 | 49.8 | 28.4 | 21.1 | 23.3 | 45.9 | 44.8 | 76.7 |
| Private banks | 87.8 | 50.4 | 112.7 | 80.6 | 36.1 | 28.1 | 49.8 | 85.0 |
| Other private | 15.0 | 14.5 | 15.9 | 7.2 | 3.3 | 4.5 | 6.7 | 4.7 |
| *Countries with* per capita *GNP of $301-$400* | 591.4 | 1 396.3 | 1 508.9 | 1 479.6 | 152.5 | 398.7 | 430.3 | 432.5 |
| Official | 448.4 | 808.0 | 878.3 | 782.0 | 17.1 | 106.2 | 126.6 | 137.7 |
| *of which:* | | | | | | | | |
| DAC | 448.4 | 746.2 | 765.1 | 780.0 | 12.8 | 96.9 | 121.6 | 133.0 |
| Other | 0.0 | 61.8 | 113.2 | 2.0 | 4.3 | 9.3 | 5.0 | 4.7 |
| Multilateral | 78.4 | 201.4 | 188.1 | 240.6 | 79.0 | 53.6 | 73.2 | 26.8 |
| Private: | | | | | | | | |
| Suppliers' credits | 60.1 | 242.8 | 282.3 | 195.7 | 53.5 | 192.8 | 181.7 | 190.3 |
| Private banks | 4.6 | 124.9 | 84.2 | 228.8 | 1.8 | 32.2 | 37.1 | 65.4 |
| Other private | 0.0 | 19.4 | 76.0 | 32.5 | 1.1 | 13.9 | 10.7 | 11.4 |
| *Countries with* per capita *GNP of $401-$800* | 1 208.7 | 2 287.3 | 3 708.2 | 4 235.1 | 262.3 | 936.3 | 1 021.5 | 1 333.1 |
| Official | 707.8 | 949.3 | 1 048.5 | 1 102.4 | 72.4 | 301.1 | 180.2 | 318.8 |
| *of which:* | | | | | | | | |
| DAC | 677.8 | 895.4 | 964.3 | 933.3 | 67.0 | 266.4 | 133.9 | 270.5 |
| Other | 30.0 | 53.9 | 84.2 | 169.1 | 5.5 | 34.7 | 46.3 | 48.3 |
| Multilateral | 124.0 | 361.5 | 448.0 | 482.7 | 27.1 | 103.1 | 123.6 | 138.4 |
| Private: | | | | | | | | |
| Suppliers' credits | 104.1 | 294.8 | 539.9 | 379.2 | 54.0 | 258.2 | 362.8 | 264.8 |
| Private banks | 226.6 | 548.1 | 1 337.3 | 1 963.2 | 83.6 | 164.9 | 248.1 | 467.1 |
| Other private | 39.2 | 44.8 | 237.3 | 236.3 | 24.3 | 47.0 | 31.1 | 50.1 |

II.2
**public debt[a] of developing countries, 1965 and 1971-1973**
*dollars)*

| *Net flow* | | | | *Interest* | | | | *Net transfer* | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| *1965* | *1971* | *1972* | *1973* | *1965* | *1971* | *1972* | *1973* | *1965* | *1971* | *1972* | *1973* |
| 4 079.1 | 6 999.5 | 9 707.7 | 11 078.5 | 580.0 | 1 729.2 | 1 980.9 | 2 549.0 | 3 499.1 | 5 270.3 | 7 726.8 | 8 529.5 |
| 3 138.4 | 4 491.4 | 5 265.1 | 5 265.0 | 237.5 | 559.6 | 636.4 | 780.3 | 2 900.9 | 3 931.8 | 4 628.7 | 4 484.7 |
| 3 045.3 | 4 332.7 | 4 986.7 | 5 033.1 | 220.5 | 512.3 | 585.8 | 725.6 | 2 824.8 | 3 820.4 | 4 400.9 | 4 307.5 |
| 93.6 | 158.7 | 278.4 | 231.9 | 17.1 | 47.3 | 50.6 | 54.7 | 76.5 | 111.4 | 227.8 | 177.2 |
| 522.2 | 957.7 | 1 177.3 | 1 623.3 | 125.3 | 352.2 | 418.0 | 542.9 | 396.9 | 605.5 | 759.3 | 1 080.4 |
| 82.9 | 35.2 | 297.4 | 230.0 | 99.0 | 312.5 | 340.3 | 334.9 | -16.2 | -277.3 | -42.9 | -104.9 |
| 179.6 | 1 136.3 | 2 239.7 | 3 352.2 | 49.9 | 278.0 | 347.0 | 584.4 | 129.7 | 858.3 | 1 892.7 | 2 767.8 |
| 149.8 | 372.7 | 730.8 | 656.6 | 68.1 | 185.7 | 193.8 | 268.8 | 81.7 | 187.0 | 537.0 | 387.8 |
| 281.1 | 527.3 | 970.4 | 1 320.1 | 2.1 | 29.7 | 35.4 | 54.5 | 279.0 | 497.7 | 935.0 | 1 265.6 |
| 265.5 | 394.0 | 683.5 | 953.6 | 0.3 | 15.4 | 14.9 | 20.5 | 265.2 | 378.6 | 668.6 | 933.1 |
| 262.3 | 363.7 | 648.8 | 839.1 | 0.0 | 8.4 | 9.8 | 13.9 | 262.3 | 355.3 | 639.0 | 825.2 |
| 3.1 | 30.3 | 34.7 | 114.5 | 0.3 | 7.0 | 5.1 | 6.6 | 2.9 | 23.3 | 29.6 | 107.9 |
| 7.4 | 27.5 | 45.9 | 123.6 | 1.2 | 3.9 | 5.0 | 6.8 | 6.2 | 23.6 | 40.9 | 116.8 |
| 3.3 | 19.3 | 146.9 | 67.9 | 0.6 | 4.9 | 7.0 | 8.1 | 2.7 | 14.4 | 139.9 | 59.8 |
| 4.9 | 87.2 | 94.7 | 168.8 | 0.0 | 5.2 | 8.3 | 18.7 | 4.9 | 82.0 | 86.4 | 150.1 |
| 0.0 | -0.6 | -0.6 | 2.1 | 0.0 | 0.3 | 0.3 | 0.3 | 0.0 | -0.9 | -0.9 | 1.8 |
| 1 427.7 | 1 755.7 | 1 793.0 | 1 794.8 | 177.9 | 325.1 | 397.2 | 391.6 | 1 249.8 | 1 430.7 | 1 395.8 | 1 403.2 |
| 1 118.6 | 1 567.1 | 1 526.4 | 1 357.6 | 110.0 | 204.1 | 262.2 | 247.3 | 1 008.6 | 1 363.0 | 1 264.2 | 1 110.3 |
| 1 032.3 | 1 568.1 | 1 500.8 | 1 355.6 | 99.2 | 181.0 | 238.3 | 228.0 | 953.2 | 1 387.1 | 1 262.5 | 1 127.6 |
| 86.3 | -1.0 | 25.6 | 2.0 | 10.8 | 23.1 | 23.9 | 19.3 | 75.4 | -24.1 | 1.7 | -17.3 |
| 260.2 | 173.6 | 302.1 | 440.6 | 42.8 | 69.8 | 82.3 | 93.1 | 217.3 | 103.8 | 219.8 | 347.5 |
| 37.9 | 21.5 | -39.3 | -33.5 | 14.5 | 30.3 | 31.4 | 27.1 | 23.4 | -8.8 | -70.7 | -60.6 |
| 14.3 | -3.1 | 5.3 | 42.4 | 2.2 | 11.7 | 12.5 | 16.3 | 12.1 | -14.7 | -7.2 | 26.1 |
| 3.3 | -5.0 | -3.5 | -7.7 | 8.3 | 8.1 | 7.4 | 6.6 | -11.6 | -13.1 | -10.9 | -14.3 |
| 529.2 | 625.2 | 860.8 | 656.0 | 29.7 | 117.2 | 114.1 | 140.3 | 499.5 | 507.9 | 746.7 | 515.7 |
| 418.5 | 489.4 | 685.8 | 605.8 | 11.6 | 36.7 | 49.0 | 57.3 | 406.9 | 452.7 | 636.8 | 548.5 |
| 400.7 | 465.9 | 656.2 | 603.1 | 11.4 | 34.1 | 44.6 | 52.9 | 389.3 | 431.8 | 611.6 | 550.2 |
| 17.8 | 23.5 | 29.6 | 2.7 | 0.1 | 2.6 | 4.4 | 4.4 | 17.7 | 20.9 | 25.2 | -1.7 |
| 30.6 | 100.2 | 123.7 | 117.0 | 8.3 | 29.6 | 29.4 | 46.7 | 22.3 | 70.6 | 94.3 | 70.3 |
| 16.7 | 3.9 | -16.4 | -55.6 | 2.7 | 23.2 | 12.2 | 12.2 | 14.0 | -19.3 | -28.6 | -67.8 |
| 51.7 | 22.3 | 62.9 | -4.4 | 3.1 | 21.2 | 17.0 | 15.1 | 48.6 | 1.1 | 45.9 | -19.5 |
| 11.7 | 10.0 | 9.2 | 2.5 | 4.1 | 5.6 | 5.6 | 7.1 | 7.6 | 4.4 | 3.6 | 4.6 |
| 438.9 | 997.6 | 1 078.6 | 1 047.1 | 33.4 | 172.4 | 193.1 | 254.1 | 405.5 | 825.3 | 885.5 | 793.0 |
| 431.3 | 701.8 | 751.7 | 644.3 | 14.2 | 58.6 | 70.9 | 89.0 | 417.1 | 643.2 | 680.8 | 555.3 |
| 435.6 | 649.3 | 643.5 | 647.0 | 13.7 | 57.1 | 69.3 | 87.8 | 421.8 | 592.2 | 574.2 | 559.2 |
| -4.3 | 52.5 | 108.2 | -2.7 | 0.5 | 1.5 | 1.6 | 1.2 | -4.8 | 51.0 | 106.6 | -3.9 |
| -0.7 | 147.8 | 114.9 | 213.8 | 7.6 | 25.0 | 32.5 | 44.5 | -8.3 | 122.8 | 82.4 | 169.3 |
| 6.7 | 50.0 | 100.6 | 5.4 | 8.9 | 66.5 | 63.6 | 78.7 | -2.2 | -16.5 | 37.0 | -73.3 |
| 2.7 | 92.7 | 47.1 | 163.4 | 1.0 | 13.1 | 14.0 | 27.6 | 1.9 | 79.6 | 33.1 | 135.8 |
| -1.1 | 5.5 | 65.3 | 21.1 | 1.9 | 9.3 | 9.9 | 12.4 | -3.0 | -3.8 | 55.4 | 8.7 |
| 946.4 | 1 351.0 | 2 686.7 | 2 902.0 | 97.2 | 417.2 | 455.3 | 614.8 | 849.2 | 933.8 | 2 231.4 | 2 287.2 |
| 635.4 | 648.2 | 868.3 | 783.6 | 30.4 | 119.1 | 83.1 | 142.1 | 604.9 | 529.1 | 785.2 | 641.5 |
| 610.8 | 629.0 | 830.4 | 662.8 | 27.7 | 109.7 | 70.1 | 127.5 | 583.2 | 519.3 | 760.3 | 535.3 |
| 24.5 | 19.2 | 37.9 | 120.8 | 2.8 | 9.4 | 13.0 | 14.6 | 21.7 | 9.8 | 24.9 | 106.2 |
| 96.9 | 258.4 | 324.4 | 344.3 | 28.8 | 104.9 | 127.2 | 166.5 | 68.1 | 153.5 | 197.2 | 177.8 |
| 50.1 | 36.6 | 177.1 | 114.4 | 13.2 | 73.3 | 107.7 | 74.5 | 36.9 | -36.7 | 69.4 | 39.9 |
| 143.0 | 383.2 | 1 089.2 | 1 496.1 | 12.7 | 66.6 | 86.4 | 168.0 | 130.3 | 316.6 | 1 002.8 | 1 328.1 |
| 14.9 | -2.2 | 206.2 | 186.2 | 11.9 | 19.4 | 14.1 | 32.1 | 3.0 | -21.6 | 192.1 | 154.1 |

TABLE II.2

| | Disbursements[b] | | | | Amortization | | | |
|---|---|---|---|---|---|---|---|---|
| | 1965 | 1971 | 1972 | 1973 | 1965 | 1971 | 1972 | 1973 |
| *Countries with* per capita *GNP of $801 and above* | 1 349.7 | 3 286.8 | 4 036.8 | 5 688.5 | 893.9 | 1 544.0 | 1 718.8 | 2 329.9 |
| Official | 521.2 | 1 041.9 | 1 140.8 | 1 411.7 | 251.9 | 351.0 | 391.3 | 491.6 |
| *of which:* | | | | | | | | |
| DAC | 507.4 | 976.3 | 1 080.1 | 1 375.1 | 204.4 | 319.6 | 373.0 | 449.7 |
| Other | 13.8 | 65.6 | 60.7 | 36.6 | 47.5 | 31.4 | 18.3 | 41.9 |
| Multilateral | 158.3 | 367.6 | 383.4 | 517.4 | 30.5 | 117.4 | 117.2 | 133.2 |
| Private: | | | | | | | | |
| Suppliers' credits | 269.6 | 270.3 | 306.0 | 542.7 | 301.4 | 366.4 | 377.6 | 411.3 |
| Private banks | 201.2 | 984.9 | 1 405.3 | 2 294.9 | 238.2 | 430.9 | 464.9 | 809.1 |
| Other private | 199.5 | 622.1 | 801.4 | 922.0 | 71.9 | 257.1 | 347.1 | 469.7 |
| II. *Oil-exporting countries* (6 countries) | 340.0 | 1 884.6 | 2 938.6 | 2 930.1 | 113.9 | 552.5 | 958.2 | 1 116.0 |
| Official | 164.2 | 909.3 | 1 252.1 | 1 739.7 | 38.8 | 257.3 | 320.6 | 418.9 |
| *of which:* | | | | | | | | |
| DAC | 163.3 | 702.4 | 950.6 | 1 413.5 | 38.7 | 153.4 | 187.6 | 217.4 |
| Other | 0.9 | 206.9 | 301.5 | 326.2 | 0.1 | 103.9 | 133.0 | 201.5 |
| Multilateral | 59.3 | 112.8 | 145.2 | 226.4 | 9.4 | 36.9 | 73.2 | 50.3 |
| Private: | | | | | | | | |
| Suppliers' credits | 27.4 | 480.9 | 460.3 | 280.4 | 29.0 | 126.8 | 193.1 | 278.4 |
| Private banks | 74.0 | 373.6 | 853.1 | 605.3 | 28.5 | 120.9 | 358.7 | 322.9 |
| Other private | 15.0 | 8.1 | 227.9 | 78.3 | 8.2 | 6.7 | 10.2 | 36.2 |
| III. *Sample of 73 developing countries* (I + II) | 6 066.1 | 12 525.7 | 16 798.2 | 19 210.9 | 1 761.0 | 4 194.1 | 5 110.2 | 6 318.3 |
| Official | 3 783.7 | 6 536.0 | 7 751.4 | 8 525.6 | 519.8 | 1 392.6 | 1 554.8 | 1 939.9 |
| *of which:* | | | | | | | | |
| DAC | 3 613.4 | 5 974.1 | 6 928.2 | 7 724.8 | 443.9 | 1 092.4 | 1 178.5 | 1 495.7 |
| Other | 170.4 | 561.9 | 823.2 | 800.8 | 76.0 | 300.2 | 376.3 | 444.2 |
| Multilateral | 787.0 | 1 469.1 | 1 763.3 | 2 283.7 | 215.0 | 435.5 | 514.0 | 484.3 |
| Private: | | | | | | | | |
| Suppliers' credits | 598.2 | 1 497.2 | 1 865.9 | 1 591.9 | 517.0 | 1 107.9 | 1 301.3 | 1 360.0 |
| Private banks | 620.3 | 2 216.1 | 3 950.5 | 5 454.3 | 395.2 | 827.1 | 1 216.4 | 1 819.7 |
| Other private | 269.7 | 712.2 | 1 361.6 | 1 279.2 | 113.1 | 338.1 | 413.0 | 580.6 |

*Source:* UNCTAD secretariat, based on data supplied by the World Bank.

NOTE. Figures may not add to totals owing to rounding, unallocated flows and adjustments for liabilities due to nationalization. For country coverage and classification, see foot-notes *e*, *g* and *i* to *m*, table II.1 above.

16. Recorded disbursements by DAC member countries to the 67 countries advanced by 6 per cent between 1972 and 1973, while debt-service payments associated with such transactions rose by 22 per cent (see table II.2). Consequently, the net transfer of resources resulting from such transactions fell. DAC official grant and loan disbursements fell in the case of countries in the $201-$300 and $401-$800 *per capita* GNP categories, and remained unchanged for those countries with a *per capita* GNP of $200 or less. Countries in other income groups, including those with *per capita* GNP above $801, experienced increases in such disbursements.

17. Disbursements by multilateral institutions grew by around 27 per cent in 1973, disbursements to countries with *per capita* GNP below $200 showing a particularly rapid advance. Because of the expansion in disbursements, the net transfer of resources resulting from transactions of the 67 countries with multilateral institutions rose by more than 40 per cent in 1973.

18. Disbursements to the 67 countries from private institutions continued to rise rapidly in 1973, growing by 30 per cent. More than one-half of these flows was directed towards countries with *per capita* GNP of $801 and above, so that this rapid expansion contributed to an important extent to the increase in receipts by this group of countries. In 1973, transactions with private creditors accounted for 36 per cent of the net transfer of resources to the 67 countries.

19. In 1973, the ratio of debt-service payments to exports of goods and services remained unchanged, as compared with 1972, for a large number of countries (see table II.5). Indeed, for nearly 40 of the 83 countries for which the debt-service ratio was calculated, changes in the debt-service ratio were insignificant. As in previous years, these countries were primarily those with low debt-service ratios. For most countries that had a significant change in the debt-service ratio in 1973, the ratio declined, and in four cases (those of Afghanistan, Guatemal, Iran and Pakistan) the decline was very sharp. Eighteen countries, on the other hand, recorded significant increases in the debt-service ratio, which were quite sharp for Nicaragua, Peru and Zambia.

20. The percentage of debt which is to be amortized in the short term provides an indication of the maturity structure of the debt, which determines the extent of rolling-over of debt that is necessary in order merely to maintain a zero net flow. Table II.6 shows for regions and for income groups the percentage of debt outstanding at the end of 1973 on which amortization payments fall due in the three-year period 1974-1976 and the five-year period 1974-1978. It gives this information for total debt and for the

(*continued*)

| *Net flow* | | | | *Interest* | | | | *Net transfer* | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| *1965* | *1971* | *1972* | *1973* | *1965* | *1971* | *1972* | *1973* | *1965* | *1971* | *1972* | *1973* |
| 455.8 | 1 742.8 | 2 318.0 | 3 358.6 | 239.9 | 667.6 | 785.8 | 1 093.7 | 216.1 | 1 075.2 | 1 532.2 | 2 264.9 |
| 269.3 | 690.9 | 749.5 | 920.1 | 71.0 | 125.7 | 156.3 | 224.1 | 198.3 | 565.2 | 593.2 | 696.0 |
| 303.0 | 656.7 | 707.1 | 925.4 | 68.5 | 122.0 | 153.6 | 215.4 | 234.6 | 534.7 | 553.5 | 710.0 |
| −33.7 | 34.2 | 42.4 | −5.3 | 2.6 | 3.7 | 2.7 | 8.7 | −36.3 | 30.5 | 39.7 | −14.0 |
| 127.8 | 250.2 | 266.2 | 384.2 | 36.6 | 119.0 | 141.6 | 185.4 | 91.2 | 131.2 | 124.6 | 198.8 |
| −31.8 | −96.1 | −71.6 | 131.4 | 59.2 | 114.3 | 118.5 | 132.3 | −91.1 | −210.4 | −190.1 | −0.9 |
| −37.0 | 554.0 | 940.4 | 1 485.8 | 31.2 | 160.2 | 208.8 | 338.7 | −68.2 | 393.8 | 731.6 | 1 147.1 |
| 127.6 | 365.0 | 454.3 | 452.3 | 41.8 | 143.0 | 156.5 | 210.2 | 85.8 | 222.0 | 297.8 | 242.1 |
| 226.1 | 1 332.1 | 1 980.4 | 1 814.1 | 33.7 | 224.9 | 291.4 | 432.5 | 192.3 | 1 107.2 | 1 689.0 | 1 381.6 |
| 125.4 | 652.0 | 931.5 | 1 320.8 | 11.5 | 87.6 | 111.7 | 155.3 | 114.0 | 564.4 | 819.8 | 1 165.5 |
| 124.6 | 549.0 | 763.0 | 1 196.1 | 11.5 | 67.8 | 97.6 | 125.6 | 113.3 | 481.2 | 665.4 | 1 070.5 |
| 0.8 | 103.0 | 168.5 | 124.7 | 0.0 | 19.8 | 14.1 | 29.7 | 0.7 | 83.2 | 154.4 | 95.0 |
| 49.9 | 75.9 | 72.0 | 176.1 | 13.1 | 30.0 | 39.0 | 47.4 | 36.8 | 45.9 | 33.0 | 128.7 |
| −1.6 | 354.1 | 267.2 | 2.0 | 3.0 | 37.5 | 58.6 | 81.3 | −4.6 | 316.6 | 208.6 | −79.3 |
| 45.5 | 252.7 | 494.4 | 282.4 | 3.8 | 61.7 | 72.5 | 124.3 | 41.8 | 191.0 | 421.9 | 158.1 |
| 6.8 | 1.4 | 217.7 | 42.1 | 2.3 | 7.6 | 9.1 | 23.8 | 4.4 | −6.2 | 208.6 | 18.3 |
| 4 305.1 | 8 331.6 | 11 688.0 | 12 892.6 | 613.7 | 1 954.1 | 2 272.3 | 2 981.5 | 3 691.4 | 6 377.5 | 9 415.7 | 9 911.1 |
| 3 263.9 | 5 143.4 | 6 196.6 | 6 585.7 | 249.1 | 647.2 | 748.0 | 935.6 | 3 014.8 | 4 496.2 | 5 448.6 | 5 650.1 |
| 3 169.5 | 4 881.7 | 5 749.7 | 6 229.1 | 231.9 | 580.1 | 683.4 | 851.2 | 2 937.6 | 4 301.6 | 5 066.3 | 5 377.9 |
| 94.4 | 261.7 | 446.9 | 356.6 | 17.2 | 67.1 | 64.6 | 84.4 | 77.3 | 194.6 | 382.3 | 272.2 |
| 572.0 | 1 033.6 | 1 249.3 | 1 799.4 | 138.4 | 419.3 | 457.0 | 590.3 | 433.7 | 614.3 | 792.3 | 1 209.1 |
| 81.3 | 389.3 | 564.6 | 231.9 | 102.1 | 350.0 | 398.9 | 416.2 | −20.8 | 39.3 | 165.7 | −184.3 |
| 225.1 | 1 389.0 | 2 734.1 | 3 634.6 | 53.6 | 339.7 | 419.5 | 708.7 | 171.5 | 1 049.6 | 2 314.6 | 2 925.9 |
| 156.6 | 374.1 | 948.6 | 698.6 | 70.4 | 193.3 | 202.8 | 292.6 | 86.2 | 180.8 | 745.8 | 406.0 |

[a] See table II.1, foot-note *a*.

[b] See table II.1, foot-note *b*.

various components of private debt, as well as the percentages that payments in respect of these components represent of total debt and of total amortization payments. Generally speaking, the pattern observed accords with *a priori* judgements. The percentages of total debt and of the components of private debt to be amortized show a tendency to rise with *per capita* GNP, reflecting the greater reliance of the richer developing countries on private sources of finance and the short maturities of the credits. It is noteworthy that the poorest group of developing countries, with *per capita* GNP of $100 and below, has a harder maturity structure of debt than the next poorest group. However, it receives a greater proportion of gross bilateral official disbursements in the form of grants, and hence a consideration solely of the terms on which the debt was contracted understates the concessionality involved in the total flow of resources to this group. The short maturity of private debt is clearly demonstrated for almost all groups of countries; the proportion of debt in the form of suppliers' credits to be amortized within three years is in the neighbourhood of 50 per cent and within five years is around 70 per cent. The percentages for debt owed to private banks are somewhat lower, with the notable exception of countries with a *per capita* GNP of $201-$300. As regards debt owed to other private creditors, the maturity structure is markedly softer than for the other two classes of private debt and the amortization payments involved for the poorer developing countries are negligible.

21. The differing reliance on one or other of these three categories of private flows by the different groups of countries is reflected in the varying percentage of total debt represented by amortization for each of the flows. The concentration on suppliers' credits is the two *per capita* GNP groups $201-$300 and $401-$800, while for private banks and for other private creditors it is in the group $801 and above. Thus, for total private debt, an increasing reliance on private flows as *per capita* GNP rises is clearly apparent, with the exception of the poorest group of countries, for which, however, 50 per cent of the total flow of resources consists of grants.

TABLE

**Developing countries: debt[a] outstanding, including loan**

*(Millio*

| | Official | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | DAC | | | | Other | | | | Multilateral | | | |
| | 1965 | 1971 | 1972 | 1973 | 1965 | 1971 | 1972 | 1973 | 1965 | 1971 | 1972 | 1973 |
| I. Sample of 67 countries. . . . . . | 9 335 | 22 901 | 26 485 | 30 506 | 1 212 | 4 120 | 4 302 | 4 839 | 4 645 | 11 456 | 13 737 | 16 677 |
| Countries with *per capita* of GNP: | | | | | | | | | | | | |
| $100 and below . . . . . . . . | 20 | 531 | 654 | 719 | 28 | 842 | 968 | 1 287 | 59 | 231 | 302 | 536 |
| $101 – $200 . . . . . . . . . | 4 692 | 10 037 | 11 087 | 12 119 | 815 | 1 812 | 1 708 | 1 543 | 1 810 | 3 497 | 3 948 | 4 571 |
| $201 – $300 . . . . . . . . . | 540 | 1 436 | 1 751 | 2 088 | 9 | 268 | 278 | 293 | 307 | 924 | 1 115 | 1 422 |
| $301 – $400 . . . . . . . . . | 807 | 2 942 | 3 561 | 4 250 | 13 | 343 | 332 | 409 | 339 | 1 073 | 1 374 | 1 685 |
| $401 – $800 . . . . . . . . . | 1 363 | 5 204 | 4 942 | 6 269 | 153 | 370 | 596 | 870 | 946 | 2 864 | 3 470 | 4 374 |
| $801 and above . . . . . . . . | 1 914 | 2 751 | 4 491 | 5 060 | 195 | 485 | 421 | 438 | 1 184 | 2 867 | 3 527 | 4 090 |
| II. Oil-exporting countries (6 countries) . . . . . . . . . . . . . . | 522 | 3 135 | 4 125 | 4 862 | 41 | 2 448 | 2 839 | 3 432 | 477 | 1 079 | 1 398 | 1 602 |
| III. Sample of 73 countries (I + II) | 9 856 | 26 036 | 30 610 | 35 367 | 1 254 | 6 568 | 7 140 | 8 271 | 5 121 | 12 535 | 15 135 | 18 279 |

*Source:* UNCTAD secretariat, based on data supplied by the World Bank.

NOTE. Figures may not add to totals owing to rounding, unallocated flows and adjustments for liabilities due to nationalization. For country

TABL

**Debt-service payments by developing countrie**

*(Millio*

| | Official | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | DAC | | | | Other | | | | Multilateral | | | |
| | 1965 | 1971 | 1972 | 1973 | 1965 | 1971 | 1972 | 1973 | 1965 | 1971 | 1972 | 1973 |
| I. Sample of 67 countries. . . . . . . | 625.7 | 1 451.0 | 1 576.7 | 2 003.8 | 92.8 | 243.8 | 293.9 | 297.4 | 330.8 | 750.7 | 858.7 | 976.9 |
| Countries with *per capita* GNP of : | | | | | | | | | | | | |
| $100 and below . . . . . . . . . | 0.5 | 20.5 | 24.0 | 33.8 | 1.6 | 21.7 | 32.1 | 24.3 | 2.7 | 8.5 | 9.7 | 11.0 |
| $101 – $200 . . . . . . . . . . | 203.1 | 359.7 | 486.7 | 496.7 | 27.4 | 119.7 | 162.5 | 139.0 | 101.5 | 159.8 | 176.3 | 185.0 |
| $201 – $300 . . . . . . . . . . | 28.1 | 99.2 | 144.4 | 189.4 | 0.8 | 12.2 | 12.5 | 14.7 | 17.1 | 59.5 | 57.6 | 86.1 |
| $301 – $400 . . . . . . . . . . | 26.5 | 153.9 | 190.9 | 220.8 | 4.8 | 10.9 | 6.5 | 5.9 | 86.6 | 78.5 | 105.6 | 71.3 |
| $401 – $800 . . . . . . . . . . | 94.6 | 376.1 | 204.1 | 398.0 | 8.3 | 44.1 | 59.3 | 62.9 | 55.9 | 208.0 | 250.8 | 304.9 |
| $800 and above . . . . . . . . . | 272.8 | 441.6 | 526.6 | 665.1 | 50.1 | 35.2 | 20.9 | 50.6 | 67.1 | 236.4 | 258.8 | 318.6 |
| II. Oil-exporting countries (6 countries) . . . . . . . . . . . . . . . . . | 50.1 | 221.1 | 285.2 | 343.1 | 0.2 | 123.7 | 147.1 | 231.2 | 22.5 | 66.9 | 112.2 | 97.7 |
| III. Sample of 73 countries (I + II) . . | 675.8 | 1 672.1 | 1 861.9 | 2 346.9 | 93.1 | 367.5 | 441.0 | 528.6 | 353.4 | 817.6 | 971.0 | 1 074.6 |

*Source:* UNCTAD secretariat, based on data supplied by the World Bank.

II.3

**undisbursed, by class of transaction, 1965 and 1971-1973**

*dollars)*

| Private | | | | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Suppliers' credits | | | | Private banks | | | | Other | | | | Total | | | |
| 1965 | 1971 | 1972 | 1973 | 1965 | 1971 | 1972 | 1973 | 1965 | 1971 | 1972 | 1973 | 1965 | 1971 | 1972 | 1973 |
| 2 967 | 7 681 | 8 795 | 8 451 | 1 269 | 4 070 | 6 290 | 8 994 | 1 556 | 2 631 | 4 124 | 4 758 | 20 991 | 53 801 | 64 609 | 75 241 |
| 20 | 323 | 366 | 485 | – | 113 | 166 | 244 | – | 7 | 7 | 7 | 127 | 2 173 | 2 463 | 3 277 |
| 314 | 903 | 894 | 826 | 63 | 225 | 203 | 215 | 164 | 129 | 122 | 111 | 7 858 | 16 635 | 17 995 | 19 419 |
| 136 | 573 | 576 | 578 | 99 | 323 | 355 | 400 | 61 | 133 | 142 | 173 | 1 151 | 3 749 | 4 320 | 5 053 |
| 401 | 1 421 | 1 518 | 1 523 | 21 | 283 | 303 | 419 | 35 | 205 | 224 | 224 | 1 625 | 6 268 | 7 366 | 8 562 |
| 493 | 2 496 | 3 333 | 2 882 | 338 | 1 180 | 1 875 | 3 083 | 377 | 421 | 453 | 641 | 3 678 | 13 129 | 15 277 | 18 896 |
| 1 594 | 1 965 | 2 109 | 2 158 | 747 | 1 947 | 3 389 | 4 633 | 920 | 1 735 | 3 176 | 3 601 | 6 554 | 11 847 | 17 190 | 20 034 |
| 94 | 1 359 | 1 848 | 1 891 | 137 | 895 | 1 315 | 1 840 | 33 | 99 | 170 | 336 | 1 303 | 9 190 | 11 885 | 14 150 |
| 3 061 | 9 041 | 10 643 | 10 342 | 1 405 | 4 966 | 7 605 | 10 834 | 1 589 | 2 730 | 4 294 | 5 093 | 22 294 | 62 991 | 76 494 | 89 390 |

coverage and classification see foot-notes *e, g* and *i* to *m*, table II.1.

[a] See table II.1, foot-note *a*.

II.4

**by class of transaction, 1965 and 1971-1973**

*dollars)*

| Private | | | | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Suppliers' credits | | | | Private banks | | | | Other | | | | Total | | | |
| 1965 | 1971 | 1972 | 1973 | 1965 | 1971 | 1972 | 1973 | 1965 | 1971 | 1972 | 1973 | 1965 | 1971 | 1972 | 1973 |
| 587.0 | 1 293.8 | 1 448.5 | 1 416.5 | 416.6 | 984.2 | 1 204.7 | 2 081.2 | 172.9 | 517,1 | 596.6 | 813.1 | 2 227.0 | 5 370.4 | 6 132.9 | 7 751.3 |
| 3.0 | 29.3 | 39.7 | 44.5 | 0.0 | 10.8 | 24.3 | 41.6 | 0.0 | 0.9 | 0.9 | 0.9 | 7.8 | 91.6 | 130.8 | 156.2 |
| 67.9 | 123.7 | 140.0 | 129.2 | 9.2 | 56.3 | 54.4 | 63.7 | 12.6 | 16.4 | 14.0 | 14.5 | 421.7 | 841.7 | 1 041.6 | 1 034.1 |
| 25.9 | 69.1 | 57.0 | 88.9 | 39.2 | 49.3 | 66.8 | 100.1 | 7.4 | 10.1 | 12.3 | 11.8 | 118.5 | 301.1 | 355.8 | 502.9 |
| 62.3 | 259.3 | 245.2 | 269.1 | 2.6 | 45.3 | 51.1 | 93.0 | 3.0 | 23.2 | 20.6 | 23.8 | 185.9 | 571.1 | 623.4 | 686.6 |
| 67.2 | 331.6 | 470.5 | 341.3 | 96.2 | 231.5 | 334.5 | 635.1 | 36.2 | 66.4 | 45.2 | 82.2 | 359.5 | 1 353.4 | 1 476.7 | 1 947.9 |
| 360.7 | 480.8 | 496.1 | 543.6 | 269.4 | 591.0 | 673.7 | 1 147.8 | 113.7 | 400.1 | 503.6 | 679.9 | 1 133.6 | 2 211.5 | 2 504.6 | 3 423.6 |
| 32.1 | 164.3 | 251.7 | 359.6 | 32.3 | 182.5 | 431.2 | 447.2 | 10.5 | 14.3 | 19.2 | 60.1 | 147.7 | 777.4 | 1 249.6 | 1 548.5 |
| 619.0 | 1 458.1 | 1 700.2 | 1 776.2 | 448.8 | 1 166.7 | 1 635.9 | 2 528.4 | 183.5 | 531.4 | 615.9 | 873.1 | 2 374.7 | 6 147.8 | 7 382.4 | 9 299.8 |

NOTE. Figures may not add to totals owing to rounding, unallocated flows and adjustments for liabilities due to nationalization. For country coverage and classification see foot-notes, *e, g* and *i* to *m*, table II.1.

TABLE II.5

**Ratio of debt-service payments[a] to exports of goods and services[b] in 83 developing countries, 1965 and 1970-1973**

*(Percentages)*

| *Country*[c] | *1965* | *1970* | *1971* | *1972* | *1973* | *Average 1970-1973* |
|---|---|---|---|---|---|---|
| *Egypt | 15.3 | 26.2 | 19.4 | 31.5 | 34.6 | 27.9 |
| Uruguay | 6.9 | 18.4 | 22.2 | 34.0 | 30.1 | 26.2 |
| *India | 15.0 | 28.0 | 25.9 | 24.5 | 20.1 | 24.6 |
| Mexico | 24.8 | 25.2 | 24.1 | 23.5 | 25.2 | 24.5 |
| Peru | 6.8 | 13.7 | 20.0 | 19.3 | 32.5 | 21.4 |
| *Afghanistan | 7.4 | 20.0 | 19.2 | 26.0 | 19.9 | 21.3 |
| *Pakistan | 11.0 | 24.3 | 19.4 | 23.4 | 16.1 | 20.8 |
| Argentina | 20.2 | 21.0 | 19.5 | 20.3 | 18.3 | 19.8 |
| Republic of Korea | 2.8 | 23.4 | 21.7 | 18.8 | 13.9 | 19.5 |
| Turkey | 28.5 | 22.5 | 19.0 | 18.8 | 10.4 | 17.7 |
| Israel | 22.5 | 18.6 | 13.4 | 17.7 | 20.8 | 17.6 |
| Tunisia | 7.7 | 19.5 | 16.9 | 16.3 | 13.8 | 16.6 |
| *Burma | 4.6 | 16.1 | 14.2 | 17.5 | 18.6 | 16.6 |
| Chile | 12.4 | 18.3 | 21.0 | 11.6 | 11.0 | 15.5 |
| Brazil | 12.4 | 15.3 | 15.8 | 14.3 | 13.9 | 14.8 |
| Bolivia | 4.8 | 10.9 | 12.2 | 17.9 | 14.8 | 14.0 |
| Zambia | 2.7 | 5.1 | 10.0 | 10.7 | 28.0 | 13.5 |
| Colombia | 14.4 | 11.9 | 14.8 | 12.6 | 13.0 | 13.1 |
| Nicaragua | 4.3 | 10.6 | 13.4 | 10.3 | 17.8 | 13.0 |
| Iran | 5.4 | 11.5 | 11.5 | 17.1 | 10.6 | 12.7 |
| *Sri Lanka | 2.0 | 9.7 | 10.8 | 14.2 | 12.6 | 11.8 |
| Paraguay | 4.2 | 11.0 | 13.1 | 13.2 | 9.5 | 11.7 |
| *Sudan | 5.5 | 9.2 | 12.1 | 12.3 | 11.1 | 11.2 |
| Panama | 2.8 | 7.8 | 9.3 | 10.8 | 16.4 | 11.1 |
| Morocco | 4.8 | 8.3 | 11.6 | 10.7 | 9.7 | 10.1 |
| Costa Rica | 10.3 | 9.7 | 10.1 | 10.0 | 10.2 | 10.0 |
| Ecuador | 6.5 | 9.1 | 12.2 | 10.6 | 7.5 | 9.9 |
| Algeria | .. | 7.4 | 9.7 | 10.9 | 11.3 | 9.8 |
| Greece | 4.0 | 8.4 | 10.2 | 9.1 | 9.7 | 9.4 |
| *Ethiopia | 5.0 | 11.6 | 10.6 | 8.7 | 6.4 | 9.3 |
| Malawi | 6.4 | 8.7 | 8.8 | 8.9 | 9.0 | 8.9 |
| Congo | 6.5 | 7.8 | 8.0 | 8.3 | 10.7 | 8.7 |
| *Sierra Leone | 5.7 | 9.0 | 8.5 | 8.6 | 8.4 | 8.6 |
| *United Republic of Tanzania | 7.5 | 7.2 | 8.4 | 11.6 | 6.7 | 8.5 |
| Syrian Arab Republic | 5.5 | 9.2 | 8.9 | 8.1 | 7.3 | 8.4 |
| Philippines | 5.4 | 7.5 | 7.0 | 9.9 | 6.3 | 7.7 |
| Guatemala | 5.2 | 7.7 | 8.2 | 10.6 | 3.8 | 7.6 |
| Swaziland | 4.5 | 4.7 | 5.3 | 9.5 | 10.5 | 7.5 |
| Yugoslavia | 14.4 | 9.6 | 6.5 | 6.4 | 6.9 | 7.4 |
| Indonesia | 10.3 | 6.6 | 7.6 | 6.7 | 7.1 | 7.0 |
| Liberia | 8.4 | 8.0 | 7.1 | 6.7 | 6.3 | 7.0 |
| Gabon | .. | 5.2 | 7.1 | 7.0 | 7.3 | 6.7 |
| *Ivory Coast | 4.5 | 6.0 | 6.8 | 7.2 | 6.3 | 6.6 |
| *Upper Volta | 2.1 | 5.9 | 5.9 | 5.1 | 8.3 | 6.3 |
| *Lesotho | 2.5 | 8.5 | 7.1 | 5.1 | 3.2 | 6.0 |
| Zaire | .. | 4.0 | 4.6 | 7.5 | 7.0 | 5.8 |
| *United Republic of Cameroon | .. | 4.6 | 4.9 | 7.7 | 5.4 | 5.7 |
| *Uganda | .. | 4.6 | 6.2 | 6.0 | 5.6 | 5.6 |
| *Kenya | 5.9 | 5.3 | 5.8 | 5.7 | 5.2 | 5.5 |
| Dominican Republic | 19.2 | 5.1 | 6.7 | 4.1 | 4.5 | 5.1 |
| *Senegal | .. | 2.3 | 5.1 | 3.7 | 8.1 | 4.8 |
| *El Salvador | 3.6 | 3.7 | 5.8 | 3.1 | 5.3 | 4.5 |
| *Ghana | 19.0 | 5.0 | 7.1 | 3.0 | 2.3 | 4.4 |
| *Chad | .. | 3.2 | 8.1 | 1.7 | .. | 4.3 |
| *Guyana | 4.1 | 4.0 | 2.8 | 4.9 | 5.4 | 4.3 |
| Jamaica | 1.9 | 3.2 | 3.9 | 5.2 | 5.0 | 4.3 |
| *Madagascar | .. | 3.6 | 4.4 | 3.9 | 5.0 | 4.2 |
| Spain | 2.1 | 4.0 | 5.2 | 3.5 | 3.6 | 4.1 |
| Malta | 0.7 | 2.0 | 12.5 | 0.7 | 0.6 | 4.0 |
| Jordan | 1.2 | 3.6 | 3.8 | 4.7 | 3.7 | 4.0 |
| Togo | 2.2 | 3.2 | 2.9 | 4.9 | 4.7 | 3.9 |
| Venezuela | 1.8 | 2.6 | 3.3 | 4.4 | 4.2 | 3.6 |
| Trinidad and Tobago | 3.7 | 3.7 | 3.3 | 3.0 | 4.1 | 3.5 |
| *Benin | 3.0 | 2.9 | 4.4 | 3.1 | .. | 3.5 |

TABLE II.5

Ratio of debt-service payments[a] to exports of goods and services[b] in 83 developing countries, 1965 and 1970-1973

*(Percentages)*

| *Country*[c] | *1965* | *1970* | *1971* | *1972* | *1973* | *Average 1970-1973* |
|---|---|---|---|---|---|---|
| *Burundi | . . | 1.9 | 2.2 | 7.0 | 3.0 | 3.5 |
| *Mauritania | – | 3.1 | 3.0 | 5.5 | 2.1 | 3.4 |
| *Niger | 1.3 | 3.9 | 3.1 | 2.9 | . . | 3.3 |
| *Honduras | 2.4 | 2.8 | 3.2 | 3.4 | 3.9 | 3.3 |
| Mauritius | 2.3 | 3.7 | 5.1 | 2.1 | 1.7 | 3.2 |
| Thailand | 3.7 | 3.6 | 3.4 | 2.9 | 2.6 | 3.1 |
| Nigeria | 3.2 | 4.0 | 2.8 | 2.4 | 2.1 | 2.8 |
| *Somalia | 1.3 | 2.1 | 2.5 | 3.0 | 3.6 | 2.8 |
| *Central African Republic | . . | 3.2 | 2.1 | 1.5 | 4.0 | 2.7 |
| Malaysia | 1.3 | 3.0 | 2.7 | 2.7 | 2.3 | 2.7 |
| Cyprus | 1.5 | 2.5 | 2.9 | 2.2 | 2.0 | 2.4 |
| Iraq | 1.2 | 2.1 | 1.9 | 2.7 | 3.0 | 2.4 |
| Botswana | 3.7 | 2.1 | 1.4 | 2.0 | 2.5 | 2.0 |
| *Rwanda | . . | 1.2 | 1.8 | 2.4 | 1.3 | 1.7 |
| Republic of South Viet-Nam | 2.9 | 0.8 | 0.9 | 2.2 | 2.7 | 1.7 |
| *Mali | 8.4 | 1.8 | 0.7 | 1.2 | 1.6 | 1.3 |
| Fiji | 0.8 | 0.9 | 0.7 | 0.9 | 0.8 | 0.8 |
| Singapore | 0.1 | 0.4 | 0.4 | 0.9 | 0.4 | 0.5 |
| Gambia[d] | – | – | – | – | – | – |

*Source:* UNCTAD secretariat, based on data supplied by the World Bank.

NOTE. An asterisk (*) indicates one of the most seriously affected countries.

[a] Debt-service payments on public and publicly-guaranteed debt. For a definition, see footnote *a* to table II.1.

[b] For certain countries for which exports of goods and services were not available, exports of goods only were used.

[c] In descending order of average ratio for 1970-1973.

[d] Debt-service ratio less than 0.1 per cent.

TABLE

**Amortization payments by 67 non-oil-exporting developing countries, 1974-1976 and 1974-1978, on suppliers' credit**

| | *Total debt: amortization as % of debt outstanding* | | *Suppliers' credits: amortization as percentage of* | | | | | | *Private banks: amortization as* | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | *Suppliers' credits outstanding* | | *Total outstanding debt* | | *Total amortization payments* | | *Private bank debt outstanding* | | *Total outstanding debt* | |
| | *1974-1976* | *1974-1978* | *1974-1976* | *1974-1978* | *1974-1976* | *1974-1978* | *1974-1976* | *1974-1978* | *1974-1976* | *1974-1978* | *1974-1976* | *1974-1978* |
| *Countries in:*[b] | | | | | | | | | | | | |
| Africa | 16.4 | 28.2 | 42.6 | 61.9 | 4.1 | 6.0 | 25.2 | 21.3 | 31.9 | 59.4 | 3.9 | 7.2 |
| East Asia | 22.4 | 36.2 | 49.3 | 74.9 | 8.2 | 12.5 | 36.8 | 34.6 | 49.4 | 78.1 | 5.3 | 8.5 |
| Middle East | 24.0 | 38.4 | 59.5 | 84.7 | 2.4 | 3.4 | 10.0 | 8.9 | 47.5 | 79.6 | 5.3 | 8.9 |
| South Asia | 13.8 | 22.4 | 40.7 | 60.6 | 1.8 | 2.7 | 13.2 | 12.1 | 47.8 | 72.5 | 0.4 | 0.6 |
| Southern Europe | 24.8 | 42.8 | 49.8 | 75.1 | 3.3 | 5.0 | 13.4 | 11.7 | 43.4 | 78.8 | 8.6 | 15.6 |
| Latin America | 28.8 | 47.5 | 49.9 | 72.7 | 6.3 | 9.2 | 21.9 | 19.4 | 38.7 | 65.4 | 9.9 | 16.7 |
| Total | 22.5 | 37.3 | 48.1 | 79.0 | 4.6 | 6.8 | 20.5 | 18.2 | 39.9 | 68.4 | 6.1 | 10.5 |
| *Countries with* per capita *GNP in 1972 of:* | | | | | | | | | | | | |
| $100 and below | 15.9 | 28.2 | 34.6 | 55.3 | 3.9 | 6.3 | 24.6 | 22.1 | 28.0 | 55.7 | 4.0 | 8.1 |
| $101-$200 | 13.9 | 22.7 | 49.6 | 70.4 | 1.8 | 2.6 | 13.2 | 11.5 | 41.5 | 68.7 | 0.6 | 1.0 |
| $201-$300 | 19.9 | 31.4 | 43.9 | 60.1 | 3.6 | 4.9 | 18.0 | 15.7 | 68.0 | 96.1 | 5.3 | 7.5 |
| $301-$400 | 18.2 | 31.0 | 46.8 | 71.9 | 7.7 | 11.7 | 41.9 | 37.9 | 40.8 | 75.6 | 2.9 | 5.3 |
| $401-$800 | 25.4 | 42.1 | 44.9 | 68.1 | 5.9 | 9.0 | 23.3 | 21.3 | 36.2 | 59.7 | 7.9 | 13.0 |
| $801 and above | 31.1 | 51.4 | 57.5 | 80.6 | 5.0 | 7.0 | 16.0 | 13.6 | 41.8 | 73.4 | 11.4 | 20.0 |
| Most seriously affected countries | 14.2 | 18.9 | 38.7 | 57.4 | 2.1 | 3.2 | 15.0 | 13.4 | 41.8 | 72.8 | 1.0 | 1.8 |
| Least developed countries | 13.0 | 17.7 | 25.5 | 44.7 | 1.3 | 2.3 | 10.1 | 10.3 | 37.0 | 64.1 | 1.2 | 2.1 |

*Source:* UNCTAD secretariat, based on data supplied by the World Bank.

[a] See foot-note *a* to table II.1.

[b] See chap. II above, table 13, foot-notes *e* to *h*, for the country classification by regions.

II.6

**and private bank debt, as a percentage of total amortization payments and of debt outstanding,[a] end-1973**

| *percentage of* | | *Suppliers' credits + Private banks: amortization as percentage of* | | | | | | *Other private creditors: amortization as percentage of* | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| *Total amortization payments* | | *Suppliers' credit and private bank debt outstanding* | | *Total outstanding debt* | | *Total amortization* | | *Other private debt outstanding* | | *Total outstanding debt* | | *Total amortization* | |
| *1974-1976* | *1974-1978* | *1974-1976* | *1974-1978* | *1974-1976* | *1974-1978* | *1974-1976* | *1974-1978* | *1974-1976* | *1974-1978* | *1974-1976* | *1974-1978* | *1974-1976* | *1974-1978* |
| 23.6 | 25.5 | 36.6 | 60.5 | 8.0 | 13.2 | 48.8 | 46.8 | 30.9 | 55.3 | 0.6 | 1.1 | 3.8 | 3.9 |
| 23.9 | 23.4 | 49.3 | 76.1 | 13.5 | 21.0 | 60.7 | 58.0 | 34.3 | 50.9 | 1.4 | 2.0 | 6.0 | 5.5 |
| 22.2 | 23.2 | 50.7 | 80.9 | 7.7 | 12.3 | 32.2 | 32.1 | 14.6 | 23.3 | 5.4 | 8.6 | 22.4 | 22.3 |
| 2.9 | 2.7 | 41.9 | 62.5 | 2.2 | 3.3 | 16.1 | 14.8 | 54.2 | 57.0 | – | – | 0.2 | 0.1 |
| 34.5 | 36.4 | 45.0 | 77.9 | 11.9 | 20.6 | 47.9 | 48.1 | 6.2 | 15.6 | 0.3 | 0.7 | 1.1 | 1.6 |
| 34.4 | 35.2 | 42.4 | 67.8 | 16.2 | 25.9 | 56.3 | 54.6 | 36.8 | 58.3 | 3.0 | 4.8 | 10.5 | 10.1 |
| 27.3 | 28.2 | 43.1 | 69.3 | 10.7 | 17.3 | 47.8 | 46.4 | 26.6 | 42.7 | 1.7 | 2.7 | 7.5 | 7.3 |
| 25.5 | 28.5 | 30.9 | 55.5 | 7.9 | 14.4 | 50.1 | 50.6 | 21.2 | 39.7 | – | – | 0.3 | 0.3 |
| 4.4 | 4.5 | 47.3 | 69.9 | 2.4 | 3.6 | 17.6 | 16.0 | 38.7 | 65.6 | 0.2 | 0.3 | 1.2 | 1.2 |
| 26.8 | 24.0 | 55.7 | 77.7 | 8.9 | 12.4 | 44.8 | 39.7 | 27.4 | 44.4 | 0.8 | 1.4 | 4.2 | 4.3 |
| 15.7 | 17.2 | 45.0 | 73.0 | 10.6 | 17.0 | 57.6 | 55.1 | 38.2 | 54.0 | 0.9 | 1.2 | 4.7 | 3.9 |
| 31.0 | 20.1 | 39.5 | 62.9 | 13.8 | 22.0 | 54.3 | 41.4 | 28.2 | 49.1 | 1.1 | 1.8 | 4.1 | 4.3 |
| 36.7 | 38.9 | 45.6 | 75.1 | 16.4 | 27.0 | 52.7 | 52.5 | 25.3 | 40.3 | 4.5 | 7.1 | 14.4 | 13.8 |
| 7.3 | 7.7 | 39.6 | 62.2 | 3.1 | 5.0 | 22.3 | 21.1 | 34.2 | 58.3 | 0.2 | 0.4 | 1.6 | 1.7 |
| 9.3 | 9.3 | 30.0 | 52.2 | 2.5 | 4.4 | 19.4 | 19.6 | 47.4 | 63.6 | 0.4 | 0.6 | 3.3 | 2.6 |

## DOCUMENT TD/189

## International monetary issues: problems of reform

### *Report by the UNCTAD secretariat*

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CONTENTS



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CHAPTER I

### *Introduction*

1. The third session of the United Nations Conference on Trade and Development was held in the midst of acute turbulence in the international monetary system, and following the breakdown of the system established at the Bretton Woods Conference. The need for a comprehensive reform of the international monetary system was barely in dispute at the time. Two issues of principle nevertheless remained: first, how international reform was to be negotiated – in what forum and by which countries; and secondly, how wide the scope of the reform should be – the extent to which it should cover financial and trade matters. Related to and underlying both these issues was the role to be played by the international monetary system in promoting the trade and development of the developing countries.

2. The Conference dealt with these questions, as well as other aspects of international monetary reform, in its resolution 84 (III). As regards the negotiating process, that resolution called for the strengthening of the role of the International Monetary Fund as the central forum for debate and as the institution for effective decision-making on all matters that concerned the international monetary system, and for the effective participation by developing countries in the decision-making process of the international monetary system and its reform; it also invited IMF to give sympathetic consideration to the proposal to set up a Committee of Twenty of the Board of Governors on the reform of the international monetary system and urged that developing country representation in that Committee should not be less than that existing in the Executive Board of IMF. Moreover, the resolution, in effect, urged that the proposal for a link between SDRs and development finance should be placed in the context of any discussions on international monetary reform.

3. In resolution 84 (III), it was also stated that problems in the monetary, trade and financial spheres should be resolved in a co-ordinated way, taking into account their interdependence, and the Secretary-General of UNCTAD was requested to consult the Managing

Director of IMF and the Director-General of GATT.[1] Progress towards a co-ordinated approach has, nevertheless, been limited.

4. In actual fact, of course, there exist two separate and largely independent international monetary system, one centred on IMF, and the other on CMEA.[2] Resolution 84 (III), in calling for international monetary reform to be negotiated in IMF, was addressed only to one of these organizations, and this, to some extent, indicated that the monetary crisis was one affecting the IMF-centred system; other factors, however, having to do with the state of international economic and political relations generally, were also in evidence.

5. In the present report, the process of international monetary reform in the IMF-centred system, is reviewed, and selected issues of particular concern to developing countries receive particular attention. Chapter II begins with a brief account of the report of the Committee of Twenty,[3] and goes on to discuss developments in the balance-of-payments adjustment process, liquidity and decision-making. The concluding chapter outlines the principal decisions taken by the IMF Interim Committee[4] at its January 1976 meeting and the main requirements that will need to be met if international monetary arrangements are to be worked out that take proper account of the interests of developing countries.

CHAPTER II

## *The Committee of Twenty and the Outline of reform*

6. Following the third session of the Conference, the Committee of Twenty was duly constituted by IMF. Developing countries were accorded nine seats on it – the same number as on the Executive Board. The mandate of the Committee was broad: its terms of reference mentioned giving full attention to the relationship between monetary reform and "existing or prospective arrangements among countries, including those that involve international trade, the flow of capital, investment, or development assistance, that could affect attainment of the purpose of the Fund under the present or amended articles".[5]

7. The Committee faced a number of problems. In the first place, whereas the Bretton Woods Agreement – the only previous attempt to construct an international monetary system by international agreement – had been largely negotiated by two countries, one of which was objectively in a position to determine the outcome, the intention now was to devise a new monetary system with the active participation of a wide range of countries. This, while it was realistic in the light of the changes in the correlation of forces and the relative status of countries since the conclusion of the Bretton Woods Agreement, meant that consensus would be more difficult to attain.[6]

8. A second problem facing the Committee of Twenty was that of defining the scope of its mandate. Narrowing the discussion to exclude trade and finance would make agreement easier, but then its contribution to the resolution of the monetary crisis would be smaller, since the crisis transcended the monetary system. In the event, the Committee decided, at an early stage, to limit its consideration of "non-monetary" issues to those trade and financial policies that affect balance-of-payments adjustment in a direct way. The possibilities of shaping the monetary reform so as to promote development were thereby reduced (and at the outset of the negotiations), for the reason that problems of commodity trade and trade barriers restricting the exports of developing countries, which exert a profound influence on their external payments, could thenceforth be ignored.[7]

9. The view which came to prevail was that monetary reform consisted essentially of devising arrangements to ensure mutual balance in payments among the developed market-economy countries and did not in essence call for a re-ordering of relations between developed and developing countries. Payments adjustment, and the asymmetries between surplus and deficit countries, and between reserve centres and other countries, thus became the focus of attention. This was perhaps understandable, in view of the fact that the floating of the dollar in August 1971 was basically caused by imbalance among the industrialized countries. But the result was that questions of payments financing and the asymmetry between developed and developing countries were largely lost sight of. The prevailing diagnosis of the international monetary problem

[1] For developments in this area since that time, see the reports of the Trade and Development Board on its thirteenth session (*Official Records of the General Assembly, Twenty-eighth Session, Supplement No. 15* (A/9015/Rev.1)), part three, paras. 69-107, the first part of its fourteenth session (*ibid., Twenty-ninth Session, Supplement No. 15* (A/9615/Rev.1)), paras. 200-223, and the first part of its fifteenth session (*ibid., Thirtieth Session, Supplement No. 15* (A/10015/Rev.1)), part three, paras. 92-114.

[2] It should be noted that Romania is now a member both of IMF and of CMEA.

[3] *Ad Hoc* Committee of the Board of Governors of the International Monetary Fund on Reform of the International Monetary System and Related Issues.

[4] Interim Committee of the Board of Governors of IMF on the International Monetary System. This Committee was established on 3 October 1974, and it replaced the Committee of Twenty.

[5] For the text of the resolution of the Board of Governors of IMF setting up the Committee of Twenty, see *IMF Survey*, vol. 1, No. 1, 14 August 1972, p. 3.

[6] On the other hand, the exclusion from the negotiations of the bulk of the socialist countries of Eastern Europe (which were participants at Bretton Woods) served to narrow the potential divergence of views, but, as noted, it also meant that, whatever reform was forthcoming, it would be confined to the monetary system of IMF members and would therefore not cover the entire international monetary system.

[7] The relevance of trade policies to the balance-of-payments adjustment process was discussed in a paper (UNCTAD/FIN/1) entitled "The process of adjustment: some considerations relating to world trade and development", prepared by the UNCTAD secretariat for the first substantive meeting of the Deputies of the Committee of Twenty. The text is reproduced in *Money, finance and development: papers on international monetary reform* (United Nations publication, Sales No. E.74.II.D.15). See also the report entitled "Interdependence of problems of trade, development finance and the international monetary system", reproduced in the same publication.

therefore ignored the important lacunae and deficiencies in the international monetary system existing independently of the United States deficit.

10. Whatever its initial intentions, the Committee of Twenty did not arrive at a detailed blueprint for a new monetary system.[8]

11. The Committee explained the incompleteness of its work in the following terms: "... in view of present uncertainties related to inflation, the energy situation, and other unsettled conditions, it is not appropriate to attempt to determine the full details of all aspects of the future international monetary system, many of which can better be decided in the light of future development".[9] While it is hazardous to speculate what might have happened in a hypothetical situation, it is likely that agreement on a detailed blueprint would have been extremely difficult, even in the absence of inflation, the adverse energy situation, etc., since the views of the participants varied widely from the outset and no single country (nor any group of countries holding a common view) was – in contrast to the situation prevailing at Bretton Woods – in a predominant position.

12. In the sections which follow, the main conclusions reached by the Committee of Twenty on the balance-of-payments adjustment process, international liquidity and decision-making are taken up, and their relationship to the course that events subsequently took is discussed.

### A. The adjustment process

13. The Committee's objective was, in its own words, to secure "a better working of the adjustment process in which adequate methods to assure timely and effective balance-of-payments adjustment by both surplus and deficit countries will be assisted by improved international consultation in the Fund".[10] To that end, the Committee arrived at a measure of consensus on procedures designed to bring about prompt adjustment and to reduce the asymmetry between the principal reserve centre (i.e. the United States of America) and other developed countries – an asymmetry resulting from the fact that the reserve centre is unlike other countries both because of its ability to finance deficits automatically and because of its limited control over the exchange rate of its currency. The procedures for dealing with these problems included the use of a combination of objective indicators (reserves, in particular) and assessment, leading to graduated pressures on countries in persistent imbalance.

14. The Committee's concern with the prompter adjustment of imbalances, and its preoccupation with the complex of issues revolving around the deficits of the reserve centre, led it to overlook the inequality in the ability of the developed and the developing countries to finance deficits – an inequality resulting in large part from the role of the developing countries as commodity producers for a world market marked by instability.[11] It thus did not reach the stage of acknowledging the need for enlarged balance-of-payments support for developing countries or of proposing concrete measures to meet that need.

15. The Committee did, however, eventually recognize that the imbalances among oil-exporting countries were not amenable to adjustment in the same way as surpluses resulting from, for example, an undervalued exchange rate or domestic deflation. The Committee therefore decided (prior to the rise in energy prices) to treat such imbalances as exceptions to the general rule, it being implicitly assumed that these imbalances would not be too large to invalidate the general rule; perhaps it is for that reason that the Outline contains no details of how the existence of such imbalances would affect the new working of the system as it applied to other countries.

16. The rise in energy prices at the end of 1973 had a fundamental and triple impact on the work of the Committee. The first effect was quantitative: imbalances in international payments reached unprecedented dimensions, surpassing by far those generated by the United States deficit at its peak, and dominating the over-all balance-of-payments picture. The second effect was qualitative: the principal imbalances now in the system differed fundamentally from those that had generally been encountered previously, and which the Outline was designed to correct. Thirdly, the exceptional needs of the developing countries for official balance-of-payments support and their lack of access to other sources of credit were brought into sharp relief. The rise in oil prices thus reinforced other tendencies already pushing in the same direction, such as the abrupt rise in prices of foods and fertilizers, and sharp variations in the prices of other goods imported by developing countries.

17. As a result, the focus of attention had perforce to shift away from "adjustment" towards "financing", and greater weight had to be given to the asymmetries between developed and developing countries. It was also to be expected that the Outline, prepared in the main on the basis of an entirely different conception, should have had to be set aside, and that international co-operation should have been increasingly directed towards the specific and

[8] See the Committee's "Outline of reform" in IMF, *International Monetary Reform: Documents of the Committee of Twenty* (Washington, D.C., 1974), and in *IMF Survey*, supplement to vol. 3, No. 12 (17 June 1974). In the words of the Committee, part I of the Outline, which dealt with the reformed system, "records the outcome of the Committee's discussion of international monetary reform and indicates the general direction in which the Committee believes that the system could evolve in the future." Many areas were discussed in annexes, written by the Chairman and Vice-Chairmen of the Deputies rather than by the Committee itself. Part II, dealing with "immediate steps", was intended to begin an evolutionary process of reform and to meet the current problems facing both the developed and the developing countries. The concrete points it contained were mostly directed towards the latter objective.

[9] *Ibid.*, "Outline of reform", preface.

[10] *Ibid.*, para. 4.

[11] See the paper entitled "The adjustment process in developing countries", reproduced in *Money, finance and development... (op. cit.)*. The paper (UNCTAD/FIN/10) was prepared in anticipation of a discussion of the matter in the Committee of Twenty which did not materialize.

concrete problems now facing the international community.

18. At its January 1974 meeting at Rome, the Committee of Twenty decided to complete its work "in the coming months", and reached a consensus on the strategy to be adopted in the face of the new imbalances. This strategy consisted mainly of measures which individual countries should not take (i.e. those which would aggravate the problems of other countries, such as competitive depreciation, trade restrictions and deflation), but the Committee also recognized that the new deficits required financing, and set in motion the process that resulted in the establishment of the oil facility.

19. Although the justification for an oil facility lay in the character of oil imbalances, the pressing need for it served to underline the fact that the IMF compensatory financing facility, which had been instituted to provide a means to protect developing countries from the vagaries of the international market, was seriously deficient, in that it took no account of changes in import prices. A second point worth noting is that, although it was recognized that oil-importing developing countries were less capable of financing their oil deficits by borrowing in international capital markets than were developed countries, such developing countries were denied preferential access to the limited resources of the facility.

20. Before and after the rise in oil prices, the trade balances of non-oil-exporting developing countries came under additional pressure, from the recession in developed market-economy countries, which proved to be the most severe and prolonged in the post-war period. Official circles, particularly in developed market-economy countries, tended to regard the consequent loss in export earnings of developing countries as raising only a question of the quantity of balance-of-payments support required, and as being qualitatively no different from losses due to fluctuations in export earnings that take place in the normal course of events – as a result of stockbuilding cycles, changes in weather conditions and the like. In reality, however, the recession-induced deficits (which encompass both deterioration in the terms of trade and reduced export volumes) had an important feature in common with the oil deficit, which had already been recognized as warranting departure from the accepted maxims: the countries in deficit were in no position to make current-account adjustments without detriment both to themselves and to their trading partners, while the "surplus" countries (i.e. those whose trade balances with developing countries improved as a result of the recession, namely the developed market-economy countries) were under no pressure, financially or otherwise, to adjust. Indeed, the enlarged deficit of non-oil-exporting developing countries vis-à-vis developed market-economy countries has been used by the latter to cover their own deficit with oil-exporting countries. The two deficits did differ in character, nevertheless, in that, unlike the surpluses of oil-exporting countries, the recession-induced improvement in the current account of developed market-economy countries did not have a financial counterpart to be "recycled" automatically through international capital markets; if any "recycling" was to take place, it had to come about as a deliberate act of international co-operation. Equally important, the loss in export revenues (in real terms) to the developing countries due to the recession was accompanied by an under-utilization of capital and labour in developed market-economy countries; any payments support provided by these latter countries would thus cost nothing in terms of real resources. Indeed, the improvement in the current account of the developed market-economy countries, unless counterbalanced by accommodating financial flows, would inevitably serve to depress demand and add a further impetus to recessionary trends. Such considerations have not, however, prompted any change in the conceptual approach towards the balance-of-payments deficits of developing countries.

21. An important issue underlying questions relating to balance-of-payments finance is that of the respective responsibilities of "surplus" and "deficit" countries. This is a matter of particular importance for developing countries, since their balances of payments are extremely sensitive to external factors. Both at Bretton Woods and in the Committee of Twenty, efforts were made to introduce into the international monetary system mechanisms to counterbalance the asymmetry between deficit and surplus countries which arises from the fact that forces tending to bring about adjustment act on deficit countries much more powerfully than on surplus countries. Such efforts met with extremely limited success – perhaps inevitably so, since they require the close co-operation of the very countries whose policy options they are intended to curtail. An alternative method of achieving symmetry (one which encounters, however, similar difficulties) lies in the provision of liberal credit facilities to deficit countries on certain objectively defined conditions of access and without any stipulations on matters of policy. Progress in this direction has thus far been limited to the compensatory financing facility of IMF, which, as already noted, has proved inadequate in several respects. There is thus a need for further adaptation in IMF lending policies, including those under the compensatory financing facility, so as to give developing countries full protection against balance-of-payments deficits caused by factors other than domestic inflation or mismanagement, including protection against recessionary trends emanating from developed market-economy countries.[12]

22. It is important also to ensure that other forms of IMF support, including those under the tranches and the extended facility, do not impose on developing countries an obligation to abstain from using trade and payments restrictions where these help to avoid an unnecessary loss of production.

23. Indeed, a more effective adjustment process requires the emphasis to be shifted to the need to reduce trade restrictions imposed by developed countries, since these inhibit the expansion of the exports of developing

[12] See also the report by the UNCTAD secretariat reproduced above and entitled "International financial co-operation for development" (TD/188), paras. 20-28; and chap. III below.

countries and thereby serve to create payments difficulties for them. It calls, above all, for the removal of quantitative limitations on imports from developing countries. The Committee of Twenty agreed that "wherever possible, developing countries will be exempted from controls imposed by other countries".[13] This, admittedly, was stated in the context of the Committee's examination of controls imposed for balance-of-payments reasons, but the case for exemption is a more general one; it applies to controls designed to protect domestic industries, as well as to those intended to safeguard an external position. This line of reasoning has prompted resistance, in part because it implies a much more profound interdependence of trade and monetary issues than has thus far been admitted. This underlines the need for a new and development-oriented conceptual framework for the analysis and resolution of international monetary issues.

### B. The exchange-rate régime

24. The provisions on exchange rates contained in the Outline, which envisaged a system of stable but adjustable parities, reflected the view that, while the par value system was basically sound, it required modification in the following ways:

(*a*) Countries with imbalances should make par value changes promptly; it was expected that the parities of the dollar and of the currencies of surplus countries would as a result become more flexible;

(*b*) The system of exchange margins and intervention should be more symmetrical; this was intended to accord to the United States of America the same degree of influence over its own effective exchange rate as other countries;

(*c*) Floating "in particular situations", subject to IMF authorization, surveillance and review, should be legalized.

25. The expectation of prompter parity adjustment was not accompanied by any proposal for a specific mechanism for its enforcement; similarly, the operational details required to implement the other changes were presented in an annex and in optimal variants.

26. An immediate, or even an early, return to "stable but adjustable" parities, even with greater flexibility, has, however, been ruled out by the course of events in the world economy as a whole. Although the structural imbalance in payments associated with higher oil prices was (as already noted) not amenable to correction by means of exchange-rate adjustments, its existence made it difficult for individual countries to judge what a "realistic" value of their currency would be; so did uncertainties about the evolution of oil deficits and inflationary pressures. The exchange-rate system therefore moved away from, rather than towards, what was envisaged in the Outline. The outcome came to be described as a "non-system", with some countries floating independently (and with varying degrees of intervention), others in concert, some currencies pegged to a major currency, others to a "basket" of currencies (often subject to alteration) and others to SDRs.[14]

27. It is possible that this state of affairs, which inflicts a number of serious difficulties and costs on developing countries, might have been avoided had there been adequate international co-operation, but the extent and scope of the co-operation required would have had to be comprehensive – including the management of capital flows, the co-ordination of domestic fiscal and monetary policies, and so on – to allow a stable structure of exchange rates to emerge; indeed, it would have been too ambitious to be practicable. Given that the conditions for such extensive co-operation did not exist, attempts to enforce a particular and precise structure of exchange rates would, in all likelihood, have prompted disruptive international movements of funds.

28. Floating has not, however, removed the problems which the Outline sought to solve. An absence of par values does not serve to give the reserve centre greater control over its exchange rate, nor does it serve to reduce other asymmetries between surplus and deficit countries; and it serves to increase, and not to lessen, the possibilities of countries pursuing inconsistent intervention policies. In practice, exchange-rate fluctuations have proved to be wider than is justifiable on the basis of "fundamental" considerations. It is also worth noting that increased flexibility has proved valuable as a means of moderating capital flows rather than of facilitating adjustment on current account.

29. In recent months, there has been growing recognition of inadequacies in international exchange-rate arrangements, and in the operation of floating. The compromise agreement on exchange rates arrived at between France and the United States of America following the meeting in November 1975 of the heads of State or Government of a number of developed market-economy countries at Rambouillet, France, has apparently removed the principal obstacle to progress towards more satisfactory arrangements. The Kingston agreements on exchange rates, which followed closely the main contours of the understanding between France and the United States, are discussed in chapter III below.

### C. Settlement, convertibility and primary reserve assets

30. The task before the Committee of Twenty was to devise a system of convertibility which would be consistent with the prompt adjustment of payments imbalances, but without being unduly constrictive. In order to arrive at a consensus along these lines, various objectives had to be balanced against one another. These included the following:

(*a*) The desire of the United States of America to bring its external position under its own control;

[13] IMF, *International Monetary Reform... (op. cit.)*, "Outline of reform", para. 16.

[14] See also "Fluctuating exchange rates and the developing countries: note by the Secretary-General of UNCTAD" (TD/B/555) and "Fluctuating exchange rates and the developing countries: study prepared by Professor Fred Hirsch" (TD/B/555/Add.1).

(*b*) The desire of the United States to maintain a reserve role for its currency;

(*c*) The desire of potential reserve centres to prevent their currencies from being held as reserves;

(*d*) The desire of a number of countries (including many developed countries) to end the reserve role of the dollar altogether, or, at least, to prevent the further accumulation of dollars;

(*e*) The desire of many countries, especially a number of developing countries, for the maximum freedom in reserve composition.

31. These varying – and generally conflicting – considerations were manifested in differences of view on such basic questions as the extent to which existing currency reserves should be exchanged for SDRs; how far such consolidation should be mandatory; on what terms it should take place; how far future imbalances should be subject to settlement with primary assets; whether such settlement should be bilateral or multilateral; and how freely countries should be able to alter their reserve portfolios.

32. Differences on these issues corresponded also in large measure to the various positions adopted on the adjustment process, and specifically on the degree to which surplus countries should be brought under international pressure in the light of reserve indicators and on the degree to which a reserve centre should be accorded control over the exchange rate of its currency – in short, how far convertibility obligations should take precedence over the adjustment process. The strong interest displayed by developing countries in freedom of reserve composition was also a source of contention. This interest arises, in the main, from the importance that "compensatory balances" held in private banks have for developing countries in securing access to external capital, which reflects in turn the fact that developing countries rely heavily on medium-term bank credit, owing to inadequate access to long-term capital.[15] Thus, while the Outline acknowledged, in broad terms, the need to bring currency reserves under international control, and to settle official balances presented for conversion to countries maintaining par values, it did not arrive at agreement on how currency reserves should be controlled or on the consolidation of those reserves and co-operation in their management.

33. On the question of primary reserve assets, it was envisaged in the Outline that SDRs would become the principal asset of the system, the role of gold and reserve currencies being reduced. The role of reserve currencies was to be reduced by the relevant provisions on adjustment and settlements, and that of the SDRs strengthened by a number of changes regarding use, valuation and interest rate. However, nothing specific was put forward to achieve a reduction in the role of gold; indeed, the Outline stated that "it is also generally recognized that gold reserves are an important component of global liquidity which should be usable to finance balance-of-payments deficits",[16] a statement which carried with it the implication that the role of gold required to be enhanced rather than reduced. Thus, the Outline contained a fundamental contradiction of vital importance for the entire reform exercise. This state of affairs reflected not only the varying importance of countries as holders or producers of gold, but also their varying confidence in fiduciary issues created by international treaty.

34. In the Outline, it was recognized that the monetary assets of oil-exporting countries were properly viewed as investments rather than reserves, and that any settlement obligations on the countries issuing currencies held by the oil exporters should be relaxed *pro tanto.* It was also widely agreed, though not to the point of consensus, that the totals of world reserve holdings calculated for the purpose of determining the need for additional global liquidity should be net of the currency holdings of oil-exporting countries.

35. Since the provisions in the Outline on settlements, reserve assets, etc., followed closely those relating to the adjustment process, it followed that when it became apparent that the new rules on adjustment could not be brought into force, those on settlements, etc., had to be held in abeyance also. In addition, with the rise in oil prices, currency accumulation by oil-exporting countries could no longer be regarded as a relatively minor element in the over-all situation; in the new circumstances, the "dollar overhang" (for which the Outline was intended to provide a remedy) had largely disappeared, while a new potential "overhang" (to which the Outline had no clear answers) had taken its place.

## CHAPTER III

## *The Kingston agreements and requirements for the future*

36. The work of the Committee of Twenty culminated in agreement in the Interim Committee at its January 1976 meeting at Kingston, Jamaica, on a number of amendments to the IMF Articles of Agreement,[17] principally on exchange rates and gold. In line with the developments which had already been in evidence in the monetary negotiations, these agreements were accompanied by

[15] It was suggested at one point that this difficulty might be lessened if the process of consolidation were made to yield a flow of long-term loans to developing countries, but this suggestion was not given serious consideration.

[16] IMF, *International Monetary Reform ... (op. cit.)*, "Outline of reform", para. 28.

[17] See annex I below, which contains the press communiqué issued by the Interim Committee at the conclusion of the meeting, and annex II, which contains the text of the new article IV on exchange arrangements. The Interim Committee of the Board of Governors on the International Monetary System came into existence upon the demise of the Committee of Twenty, pending the establishment, as envisaged by the latter, of a permanent and representative Council (see "Outline of reform", para. 31). For the composition and terms of reference of the Interim Committee, see the composite resolution (second resolution) adopted by the Board of Governors at its 1974 annual meeting (*IMF Survey*, vol. 3, No. 20, 14 October 1974 (Washington, D.C.), p. 337).

others, arrived at in response to current international payments imbalances.

37. The Interim Committee's agreement on exchange rates, which takes the form of a new article IV in the IMF Articles of Agreement, provides for the legalization of a variety of exchange-rate practices, including floating, IMF members undertaking to promote exchange-rate stability through their general economic and financial policies and their exchange-rate policies. The eventual reintroduction of the par value system is allowed for, in the event of the Fund determining that international economic conditions permit it. Such a decision is to be taken with particular reference, *inter alia,* "to arrangements under which both members in surplus and members in deficit in their balances of payments take prompt, effective and symmetrical action to achieve adjustment, as well as to arrangements for intervention and the treatment of imbalances",[18] and will require an 85 per cent majority of the voting power – in short, it depends on a substantial advance being made in the area of adjustment, and on the agreement of the United States of America, which commands more than 15 per cent of the total vote in IMF.

38. The exchange-rate agreement – which the communiqué of the Interim Committee described as establishing "a new system" – also specifies that the Fund shall exercise "firm surveillance" over the exchange-rate policies of its members and adopt specific principles for the guidance of all its members with respect to these policies. Moreover, it requires the Fund, in determining these principles and in exercising surveillance, to respect the domestic, social and economic policies of its members, and to have due regard to their circumstances.

39. The Kingston agreements also include an increase in IMF quotas by 32.5 per cent in all, which is not expected to go into effect during 1976. This increase is substantially less than the increase in world trade since the last revision of quotas in 1972; world trade increased by about 180 per cent over the five years from the first half of 1970 to the first half of 1975. The new quotas involve a doubling in the relative share of the major oil-exporting developing countries, the share of the other developing countries being maintained at roughly a little over one-fifth of the total.

40. Regarding reserve assets, the Interim Committee agreed that each IMF member should undertake to collaborate with the Fund and other members regarding policies on such assets, so as to ensure that its policies are consistent with the objective of "promoting better international surveillance of international liquidity and making the special drawing right the principal reserve asset in the international monetary system".[19] But whether the latter objective will be promoted in practice is doubtful. The collaboration clause omits reference to reduction of the role of gold and reserve currencies, without which a major advance in the position of SDRs cannot be secured, and no enabling clause for the establishment of a substitution account, either for currencies or for gold, is likely to be included among the amendments to the Fund's Articles of Agreement.

41. The collaboration clause must, in any event, be seen against the broader background of the Interim Committee's various decisions on gold: that its official price be abolished through the amendment of the Articles of Agreement, that the restitution of one-sixth of the Fund's gold be made to members and a further one-sixth sold, any profits going to the developing countries. When the official price is abolished, central banks will be free to buy gold from each other and from the market at market-related prices. The major decisions regarding gold, and hence the determination of the volume of international liquidity, will then be placed largely in the hands of the major gold-holding countries – the Group of Ten[20] – and outside the ambit of IMF. Consequently, these countries are likely to co-operate with each other both to establish a price for dealings in gold among themselves and to manage the value of their gold reserves. Since their gold stocks exceed by far the annual volume of transactions in private markets in gold, it is probable that they will themselves come to dominate and manage private markets, either by direct or by indirect dealings, and eventually establish a new gold price, *de facto* if not *de jure,* which might be adjusted upwards from time to time.[21] It is, in theory, possible for such efforts to be frustrated by the United States of America, which is the largest gold-holder and which has traditionally been in favour of demonetizing that metal, if it chooses to act at cross-purposes with the other members of the Group of Ten. But the present indications are that this would not appear to be the most likely outcome.

42. The medium-term prospects for gold depend to an important degree on its market price not being unduly depressed by gold sales by IMF and hence on the ability of central banks to act in support of this price. The present Fund Articles prevent central banks from buying from the market. However, they do not prevent the Bank for International Settlements from doing so, either on its own account or indirectly as an agent of its member central banks. At the Kingston meeting, the Interim Committee registered its understanding that the Bank for International Settlements would be able to bid for gold sold by the Fund.

43. The Interim Committee's decisions on gold are thus likely to strengthen the role of gold and to result in a massive revaluation of gold reserves, even if initially they lead to some weakening of its market price. The Kingston decisions thereby make it unlikely that additional SDRs will be required in any substantial amounts, and thus constitute a major setback for the SDRs as a reserve asset.

[18] See section 4 of article IV, annex II below.

[19] See annex I below, para. 7 (*a*).

[20] Belgium, Canada, France, the Federal Republic of Germany, Italy, Japan, the Netherlands, Sweden, the United Kingdom and the United States of America.

[21] It is true that the Group of Ten has agreed, *inter alia,* that no action will be taken to peg the price of gold and that the stock of gold in the hands of the monetary authorities of the Group of Ten and IMD will not be increased; but this commitment is for two years only, after which it can be "continued, modified or terminated" (see the communiqué issued by the Interim Committee on its fourth meeting on 31 August 1975, para. 5 (*IMF Survey,* vol. 4, No. 17, 15 September 1975)).

44. The Kingston agreements are also notable for the absence of even an enabling clause to establish a link between allocations of SDRs and development finance. Instead, there is to be a trust fund, which may be viewed as constituting a link between gold revaluation and development assistance. This trust fund is to be financed in part from the profits on the sale of one-sixth of the Fund's gold over a four-year period, which is generally expected to yield around $400-$500 million a year. The amended Articles will also contain an enabling provision allowing further sales in the future, under a qualified majority of 85 per cent of total voting power.

45. The decisions on gold, taken together, in fact constitute a "reverse link", involving a shift in the distribution of world reserves from developed to developing countries; the trust fund merely serves to limit the extent of this shift. This point is borne out by the following calculations. A threefold revaluation of national gold stocks would raise the reserves of IMF members by $84.2 billion. Of this, $61.6 billion – i.e. 73 per cent – would accrue to the Group of Ten, and $4.1 billion – i.e. 5 per cent – to the non-oil-exporting developing countries; *ceteris paribus*, the total reserves of the latter as a proportion of those of the former would fall from 27.3 per cent to 19.7 per cent, i.e. by 7.6 percentage points.

46. If the restitution of IMF gold and the trust fund are taken into account, the figure for the increase in the reserves of IMF members rises to $89.5 billion. Of this, $63.5 billion, i.e. 71 per cent, would accrue to the Group of Ten, and $6.9 billion, i.e. 7.7 per cent, to the non-oil-exporting developing countries. In that case, the reserves of the latter countries as a proportion of those of the Group of Ten would fall from 27.3 per cent to 21.1 per cent, instead of to 19.7 per cent.

47. The redistribution of reserves that will result from a revaluation of gold could have been avoided if the $89.5 billion increase in the reserves of IMF members had instead been brought about by allocations of SDRs distributed on the basis of quotas. In that case, $53.9 billion of the increase would have accrued to the Group of Ten and $18.4 billion to non-oil-exporting developing countries, raising the reserves of the latter from 27.3 per cent to 29.6 per cent of the reserves of the former.

48. It is in relation to these orders of magnitude that the projected size of the profits on the sales of Fund gold to be channelled to the trust fund – i.e. $2 billion at the most, spread out over four years – takes on its true significance.[22]

49. The practical significance of the agreements as far as exchange rates and liquidity are concerned is hard to pin down. As already noted, any generalized return to par values is left for the future. Moreover, no specific mechanism is established which would permit IMF to exercise "firm surveillance" over the major currencies; nor does the agreement state in precise terms the obligations to be assumed by individual countries. Thus, it appears likely that IMF will be unable to influence exchange rates, other than those of countries needing to make drawings. For these countries, and particularly developing countries, much of the outcome will depend on the interpretation that IMF gives to the requirement that it should respect the domestic policies and circumstances of members. For the immediate future, the exchange-rate agreement may be regarded as a step towards greater exchange-rate stability, inasmuch as it indicates that the major trading countries recognize that concerted intervention to maintain stability is desirable, but this could, of course, have been accomplished without the legalization of floating.

50. Thus, the Kingston agreements cannot be truly regarded as completing the reform of the monetary system, nor as bringing about any tangible and substantial improvement in the international monetary system. They are more accurately seen as bringing the law into line with actual practice, which springs largely from decisions taken at the national level, and as setting the "ground rules" for future decisions.

51. A further question arises as to the adequacy of measures taken so far to allow IMF to provide additional payments financing. It is worth noting in this connexion that, although IMF is endowed with substantial resources and is in principle able to provide payments financing to countries up to the limit of their third, and even fourth, credit tranches, drawings on the upper tranches are relatively rare. The unwillingness of countries to utilize the financing possibilities represented by the higher credit tranches results in the main from the rather stringent policy conditions attached to such drawings. Indeed, it is for this reason that the widespread need for payments financing from the Fund that resulted from higher oil prices was met not by requiring members to draw on the higher credit tranches but by establishing a separate facility that was free of the conditionality associated with these tranches. Likewise, with regard to the current financing difficulties faced by developing countries, what matters is the additional financing made available by the trust fund, the compensatory financing facility and the enlargement of the first credit tranche.

52. The precise additional amounts that would be forthcoming because of the decisions taken at Kingston are subject to some uncertainty. The trust fund, as noted, is expected to yield up to $500 million annually for the next four years, but exactly how much depends on the precise price at which IMF is able to sell gold. Likewise, the expanded compensatory financing facility could, theoretically, yield in 1976 roughly $3 billion, half of that amount being the result of raising the limit on borrowing in any one year from 25 per cent of quota to 50 per cent. The Managing Director of IMF has stated, however, that the likely figure for actual drawings under the facility in 1976 is about $1 billion.[23] The maximum available under the

[22] The $63.5 billion windfall gain to the developed countries contrasts with an expected balance-of-payments deficit of the non-oil-exporting developing countries of $38 billion in 1976 and a $11.3 billion flow of official development assistance from DAC member countries in 1974 (see the report by the UNCTAD secretariat entitled "International financial co-operation for development" (TD/188/Supp.1) above, tables 9 and 3 respectively).

[23] *IMF Survey*, vol. 5, No. 2, 19 January 1976, pp. 23 and 24.

first credit tranche is approximately \$2 billion, of which less than \$500 million is the result of the temporary enlargement of the tranches. Some additional funds will also be available under the 1975 oil facility, which is expected to continue operations until mid-1976; a total of about \$1 billion is available for IMF members as a whole, but it is not known with certainty how much of this will accrue to developing countries. However, when it is taken into account that about \$1.5 billion was made available to developing countries under the oil facility in 1975 (and that no new oil facility is to be established for 1976), the net increase in IMF financing in 1976 (over 1975) comes to less than \$2.5 billion.

53. It is sometimes argued that even a small increase in access to Fund resources can go a long way, since borrowing from the Fund serves to enlarge a country's access to international capital markets. This is true, however, only in so far as drawings from the Fund involve the imposition of financial "discipline" on the country – "discipline" which under current world economic conditions would be harmful to both developing countries and the international economy as a whole. Clearly, this approach to covering the payments gap of developing countries would not succeed in solving their present financial problems in a manner consistent with their development objectives and with those of the Second United Nations Development Decade. In any event, as long as IMF is not in a position to cover, if necessary, a country's deficit in its entirely, it is not a "lender of last resort" and will not be considered as such by private lenders.

54. It is not only the conditionality of resources available to developing countries that presents a problem. The repayment period on Fund lending is not long enough, given that the export shortfalls of developing countries are not likely to be reversed fully in a short period of time.

55. Failure to enlarge substantially the amount of balance-of-payments assistance available to developing countries means that the ability of developing countries to weather the present storm in the international economy continues to depend critically on two uncertain factors: the pace of economic recovery in the industrialized countries and the "confidence" of private capital markets. Consequently, the Kingston decisions have left largely intact the situation in which the developing countries find themselves.

56. The purpose of the preceding analysis has been to demonstrate that, ever since the series of sharp structural and conjunctural changes that took place in the international economy beginning in 1973, the quest for international monetary reform has been intermingled with, and to some extent been dominated by, efforts to deal with immediate problems, and that in both areas progress has been limited. It is worth pointing out that limited progress on reform is not the result of an excessive preoccupation with the immediate issues at the expense of the long-term ones; nor is it due, in the first instance, to the setting of over-ambitious goals. Rather, it results from a narrow diagnosis and a limited perception of the over-all problem, which tend to view developmental issues as subordinate (instead of central) to the global problem and ignore the fact that the international monetary problem is not simply a monetary one but springs from the malfunctioning of the international financial and trading systems and the international economic mechanism generally.

57. It follows that it is not the abandonment of the "quantum leap" approach to a new monetary system in favour of an evolutionary approach that presents the main difficulty; any systematic re-ordering of international monetary relations must follow an orderly sequence. The obstacle is reluctance to abandon traditional notions and orthodox policy responses, except as a last resort. This has led, among other things, to excessive preoccupation with the need to make gold "usable" by abolishing its official price and to an excessively long and controversial debate on the legal basis of the exchange-rate régime. These, in turn, have led to decisions which run counter to the needs of the world economy, and have pushed aside the far more important and pressing questions arising from the asymmetries in the international balance-of-payments adjustment process.

58. A fundamental shift of emphasis in negotiations is required if international monetary co-operation is to be effective, either in the face of immediate problems, or in creating a satisfactory system in the long run.

59. In the first place, it will be necessary to overhaul the arrangements for balance-of-payments support, so as to ensure that the burden of adjustment is shared equitably. The following steps, among others, would need to be taken by IMF:[24]

(*a*) Further liberalization of the compensatory financing facility, so as to enlarge access to it and make the repayment schedule more flexible;

(*b*) The provision of longer-term support to meet deficits arising from recession and inflation in developing countries;

(*c*) An increase in the amounts available on first-credit-tranche conditions.

60. Such modifications in IMF policies, if put into effect, would render the Fund, for the vast majority of its members, a more useful international monetary institution. The question has been raised whether it would be appropriate for the Fund to pay increased attention to the needs of its developing country members. Some have argued that it would not, on the grounds that the Fund is a monetary and not a development agency. It is difficult to see the logic of this argument. Certainly, it would be hard to justify the Fund's assisting the development process without any regard to its monetary aspects; but this point is not at issue. The question is whether international monetary co-operation is to stop short of the point at which it deals effectively with payments problems faced by developing countries and springing from the workings of the international monetary system, as well as from the very structure of developing economies. Clearly, IMF cannot successfully discharge its functions as an international

[24] See documents TD/188 and TD/188/Supp.1 above.

monetary agency if it ignores or neglects the fact that developing countries have a special need for payments support. It should, therefore, be recognized that meeting this need, far from causing the Fund to abandon its role as a monetary agency, would help it to fulfil that role. It must also be stressed that fulfilment by IMF of the task of acting as a buffer by neutralizing the transmission of inflationary and recessionary forces from developed to developing countries would not constitute an encroachment on the prerogatives of development finance institutions. Rather, it would establish a mechanism, which is necessary but lacking at present, to offset the asymmetries between developed and developing countries in the balance-of-payments adjustment process and to protect the latter from economic maladjustments in the former. Dealing with this problem through longer-term lending than is customary for IMF is as much an act of international monetary co-operation as are the present operations of the Fund.[25]

61. A second, and equally important, requirement for the future is that international reserve creation be brought under international control, so as to ensure that aggregate reserve creation is consonant with needs and distributed according to internationally agreed criteria. Applied to the present situation, this objective calls for the adverse effects on the international distribution of reserves resulting from the decisions taken on gold to be fully offset by having developed countries forgo a substantial part of their windfall profits in favour of developing countries. For the longer term, arrangements are required whereby gold and reserve currency holdings would be limited and reserves would be generated through the creation of SDRs, the bulk of the "seigniorage" from such creation being linked to development finance.[26] This, as experience has shown, is not an easy problem to tackle, but it is one that nevertheless remains. Renewed efforts aimed at finding a solution in this area are therefore called for.

62. Clearly, such changes are unlikely to be accomplished without a decision-making process which ensures that developing countries participate fully at all stages of negotiation, and without those countries putting their representation in decision-making bodies to effective use.

63. Finally, there is need to pay more attention in the future to the ways in which the monetary and payments relations of developing countries with the socialist countries of Eastern Europe may be expanded and improved. This topic is likely quickly to assume greater importance with the progressive changes that are currently taking place in the relations between the socialist countries of Eastern Europe and other countries and in the developing countries.[27] Further study and discussion of this question in UNCTAD are therefore warranted.

[25] The argument that monetary questions could not be negotiated in IMF if that institution were to become more development-oriented might be taken to mean that developed countries would be unwilling to permit the participation of developing countries in decisions on monetary matters of concern to the international community, if those countries were to press for decisions which were balanced and reflected their own needs as well as those of developed countries. This is essentially a political argument which, if accepted, would signify a considerable retrogression from understandings on participation in the decision-making process and on the interdependence of monetary, trade and development issues reached in UNCTAD, as well as in IMF.

[26] On this question, see the paper (UNCTAD/FIN/6) entitled "SDR creation and development assistance", reproduced in *Money, finance and development: papers on international monetary reform, op. cit.*

[27] Some issues relating to the expansion of trade and economic relations between countries having different economic and social systems are examined in the report by the UNCTAD secretariat entitled "Multilateral action for expanding trade and economic relations between countries with different economic and social systems, in particular action which would contribute to the development of the developing countries" (TD/193), reproduced below.

# *ANNEXES*

## ANNEX I

### Interim Committee communiqué of 8 January 1976[a]

1. The Interim Committee of the Board of Governors on the International Monetary System held its fifth meeting at Kingston, Jamaica, on 7 and 8 January 1976 under the chairmanship of Mr. Willy de Clercq, Minister of Finance of Belgium, who was selected by the Committee to succeed Mr. John Turner of Canada as Chairman, Mr. H. Johannes Witteveen, Managing Director of IMF, participated in the meeting. The following observers attended during the Committee's discussions: Mr. Henri Konan Bédié, Chairman, Bank-Fund Development Committee; Mr. G. D. Arsenis, representing the Secretary-General of UNCTAD; Mr. Wilhelm Haferkamp, Vice-President, Commission of the European Communities; Mr. Mahjoob A. Hassanain, Chief, Economics Department, OPEC; Mr. René Larre, General Manager, Bank for International Settlements; Mr. Emile van Lennep, Secretary-General, OECD; Mr. F. Leutwiler, President, National Bank of Switzerland; Mr. Olivier Long, Director General of GATT; and Mr. Robert S. McNamara, President of IBRD.

2. The Committee endorsed the recommendations contained in the report of the Executive Directors on the Sixth General Review of Quotas and the proposed resolution on increases in the quotas of individual members to be submitted to the Board of Governors for its approval. In this connexion, the Committee reaffirmed its view that the Fund's holdings of each currency should be usable in Fund's operations and transactions in accordance with its policies. Appropriate provisions for this purpose will be included in the draft amendments of the Fund's Articles. To give effect to the Committee's view in the period before the amendments become effective, it was agreed that, within six months after the date of the adoption of this resolution, each member shall make arrangements satisfactory to the Fund for the use of the member's currency in the operations and transactions of the Fund in accordance with its policies, provided that the Executive Directors may extend the period within which such arrangements shall be made.

[a] Reproduced from *IMF Survey*, vol. 5, No. 2, 19 January 1976.

3. The Committee considered the question of the implementation of the agreement reached at its fourth meeting regarding the disposal of a part of the Fund's holdings of gold. It was agreed that action should be taken to start without delay the simultaneous implementation of the arrangements referred to in paragraph 6 of the press communiqué issued by the Committee on 31 August 1975. The sales of gold by the Fund should be made in public auctions according to an appropriate time-table over a four-year period. It is understood that the Bank for International Settlements would be able to bid in these auctions.

4. In its discussion of the world economic situation and outlook, the Committee noted that recovery from the severe international recession of 1974-1975 was now under way in much of the industrialized world. Nevertheless, current rates of both unemployment and inflation were still unacceptably high. The Committee called on the industrialized countries, especially those in relatively strong balance-of-payments positions, to conduct their policies so as to ensure a satisfactory and sustained rate of economic expansion in the period ahead, while continuing to combat inflation. A special source of concern to the Committee was the deterioration in the external position of the primary producing countries, especially the developing ones. The general picture for the developing countries in 1975 was again one of large balance-of-payments deficits on current account, financed through heavy external borrowing and through the use of reserves already eroded by the inflation in recent years. With large current-account deficits still in prospect this year, the Committee felt that the ability of many developing countries to maintain an adequate flow of imports in 1976, and to follow appropriate adjustment policies, would also depend on the availability of adequate credit from the Fund.

5. The Committee welcomed the recent decision of the Executive Directors liberalizing the compensatory financing facility. Under the new decision, the Fund will be prepared to authorize drawings up to 75 per cent of a member's quota, as against 50 per cent under the 1966 decision. Maximum drawings in any one year are raised from 25 per cent to 50 per cent of quota. Moreover, the decision enables the Fund to render assistance under the facility at an earlier stage of the development of a shortfall.

6. The Committee noted the report of the Executive Directors on their review of the Fund's policies on the use of its resources, and also on the trust fund for the benefit of the low-income members. After consideration of the issues involved, the Committee reached the following conclusions:

(*a*) It was agreed that the necessary steps should be taken to establish the trust fund without delay. Its resources would be derived from the profits of the sales of the Fund's gold, which should be augmented by voluntary national contributions. It was agreed that the amount of gold available for sale in accordance with the agreement reached by the Committee at its fourth meeting should be disposed of over a four-year period. The resources of the trust fund should be used to provide balance-of-payments assistance on concessionary terms to members with low *per capita* incomes. Initially, eligible members would be those with *per capita* incomes in 1973 not in excess of SDRs 300.

(*b*) It was further agreed, that, until the effective date of the amendment of the Articles, the size of each credit tranche should be increased by 45 per cent, which would mean that total access under the credit tranches would be increased from 100 per cent to 145 per cent of quota, with the possibility of further assistance in exceptional circumstances. The present categories of conditionality for the tranches would remain unchanged. The Fund will in due course consider again the question of access to the Fund's resources if it becomes evident that the needs of members make it advisable to re-examine this question.

7. The Committee noted the report of the Executive Directors on amendment, welcomed the progress made toward the solution of the outstanding issues, and commended them for the voluminous and successful work that they had done in order to achieve a major revision of the Articles. In particular, it welcomed the agreement that had been reached on provisions concerning the important problem of exchange rates. In this respect, it had endorsed a new Article IV of the Articles of Agreement which establishes a system of exchange arrangements. The new system recognizes an objective of stability and relates it to achievement of greater underlying stability in economic and financial factors. The Committee considered the remaining issues on which its guidance has been requested by the Executive Directors and agreed as follows:

(*a*) The amended Articles of Agreement should include a provision by which the members of the Fund would undertake to collaborate with the Fund and with other members in order to ensure that their policies with respect to reserve assets would be consistent with the objectives of promoting better international surveillance of international liquidity and making the special drawing right the principal reserve asset in the international monetary system.

(*b*) The amended Articles would contain an enabling provision under which the Fund would be able to sell any part of the gold left after the distribution of 50 million ounces in accordance with the arrangements referred to in paragraph 3 above, and use the profits (1) to augment the general resources of the Fund for immediate use in its ordinary operations and transactions, or (2) to make balance-of-payments assistance available on special terms to developing members in difficult circumstances. On the occasion of such sales, the Fund would have the power to distribute to developing countries members a portion of the profits on the basis of their quotas or to make a similar distribution by the direct sale of gold to them at the present official price. Any decision on such a distribution should be taken by an 85 per cent majority of the total voting power. These powers of the Fund would be in addition to the power that the Fund would have under another enabling provision to make restitution to all members, on the basis of present quotas and at the present official price, of any part of the gold left after the disposal of the 50 million ounces referred to above.

(*c*) Decisions of the Fund on the use of the profits from the sale of its gold in the regular operations and transactions of the Fund should be taken by a 70 per cent majority of the total voting power and on decisions on use of the profits in other operations and transactions by an 85 per cent majority of the total voting power.

(*d*) The Executive Directors are urged to review, during the final stage of their work on the draft amendments, the majorities for operational decisions that do not reflect compromises of a political character, with a view to considering the reduction, if possible, of the number and size of the special majorities that would be required under the amended Articles for such operational decisions. Such a review should be completed within the coming weeks and should not delay the completion of the comprehensive draft amendment.

(*e*) The majority required for the adoption of decisions on the method of valuation of the special drawing right under the amended Articles should be 70 per cent of the total voting power, with the exception of decisions involving a change in the principle of valuation or a fundamental change in the application of the principle in effect, which should be taken by an 85 per cent majority of the total voting power.

(*f*) The Executive Directors should continue their consideration of the subject of a substitution account without delaying completion of the comprehensive draft amendment.

(*g*) With respect to the obligation of participants in the Special Drawing Account to reconstitute their holdings of SDRs, it was agreed that the amended Articles should authorize the Fund to review the rules for reconstitution at any time and to adopt, modify, or abrogate these rules by a 70 per cent majority of the total voting power.

8. The Committee requested the Executive Directors to complete their work on amendment in the light of the guidance given by the Committee, and expects that the Executive Directors will be able to submit a comprehensive draft amendment for the approval of the Board of Governors, together with a report, within the coming weeks.

ANNEX II

**Text of a proposed new article IV of the Articles of Agreement of the International Monetary Fund as endorsed by the Interim Committee on 8 January 1976**[a]

ARTICLE IV

***Obligations regarding exchange arrangements***

*Section 1. General obligations of members*

Recognizing that the essential purpose of the international monetary system is to provide a framework that facilitates the exchange of goods, services and capital among countries, and that sustains sound economic growth, and that a principal objective is the continuing development of the orderly underlying conditions that are necessary for financial and economic stability, each member undertakes to collaborate with the Fund and other members to assure orderly exchange arrangements and to promote a stable system of exchange rates. In particular, each member shall:

(*a*) Endeavour to direct its economic and financial policies toward the objective of fostering orderly economic growth with reasonable price stability, with due regard to its circumstances;

(*b*) Seek to promote stability by fostering orderly underlying economic and financial conditions and a monetary system that does not tend to produce erratic disruptions;

(*c*) Avoid manipulating exchange rates or the international monetary system in order to prevent effective balance-of-payments adjustment or to gain an unfair competitive advantage over other members;

(*d*) Follow exchange policies compatible with the undertakings under this section.

*Section 2. General exchange arrangements*

(*a*) Each member shall notify the Fund, within thirty days after the date of the second amendment of this Agreement, of the exchange arrangements it intends to apply in fulfilment of its obligations under section 1 of this article, and shall notify the Fund promptly of any changes in its exchange arrangements.

(*b*) Under an international monetary system of the kind prevailing on 1 January 1976, exchange arrangements may include (i) the maintenance by a member of a value for its currency in terms of the special drawing right or other denominator, other than gold, selected by a member, or (ii) co-operative arrangements by which members maintain the value of their currencies in relation to the value of the currency or currencies of other members, or (iii) other exchange arrangements of a member's choice.

(*c*) To accord with the development of the international monetary system, the Fund, by an eighty-five per cent majority of the total voting power, may make provision for general exchange arrangements without limiting the right of members to have exchange arrangements of their choice consistent with the purposes of the Fund and the obligations under section 1 of this article.

*Section 3. Surveillance over exchange arrangements*

(*a*) The Fund shall exercise supervision over the international monetary system in order to ensure its effective operation, and shall supervise the compliance of each member with its obligations under section 1 of this article.

(*b*) In order to fulfil its functions under paragraph (*a*) above, the Fund shall exercise firm surveillance over the exchange-rate policies of members, and shall adopt specific principles for the guidance of all members with respect to those policies. Each member shall provide the Fund with the information necessary for such surveillance, and, when requested by the Fund, shall consult it on the member's exchange-rate policies. The principles adopted by the Fund shall be consistent with co-operative arrangements by which members maintain the value of their currencies in relation to the value of the currency or currencies of other members, as well as with other exchange arrangements of a member's choice consistent with the purposes of the Fund and section 1 of this article. These principles shall respect the domestic, social, and political policies of members, and in applying these principles the Fund shall pay due regard to the circumstances of members.

*Section 4. Par values*

The Fund may determine, by an eighty-five per cent majority of the total voting power, that international economic conditions permit the introduction of a widespread system of exchange arrangements based on stable but adjustable par values. The Fund shall make the determination on the basis of the underlying stability of the world economy, and for this purpose shall take into account price movements and rates of expansion in the economies of members. The determination shall be made in light of the evolution of the international monetary system, with particular reference to sources of liquidity, and, in order to ensure the effective operation of a system of par values, to arrangements under which both members in surplus and members in deficit in their balances of payments take prompt, effective and symmetrical action to achieve adjustment, as well as to arrangements for intervention and the treatment of imbalances. Upon making such determination, the Fund shall notify members that the provisions of schedule K apply.

*Section 5. Separate currencies within a member's territories*

(*a*) Action by a member with respect to its currency under this article shall be deemed to apply to the separate currencies of all territories in respect of which the member has accepted this Agreement under article XXXI, section 2 (*g*), unless the member declares that its action relates either to the metropolitan currency alone, or only to one or more specified separate currencies, or to the metropolitan currency and one or more specified separate currencies.

(*b*) Action by the Fund under this article shall be deemed to relate to all currencies of a member referred to in paragraph (*a*) above, unless the Fund declares otherwise.

*SCHEDULE K*

***Par values***

1. The Fund shall notify members that par values may be established for the purposes of this Agreement, in accordance with article IV, sections 1, 3, 4, and 5 and this schedule, in terms of the special drawing right, or in terms of such other common denominator as is prescribed by the Fund. The common denominator shall not be gold or a currency.

2. A member that intends to establish a par value for its currency shall propose a par value to the Fund within a reasonable time after notice is given under paragraph 1 above.

3. Any member that does not intend to establish a par value for its currency under paragraph 1 above shall consult the Fund and ensure that its exchange arrangements are consistent with the purposes of the Fund and are adequate to fulfil its obligations under article IV, section 1.

4. The Fund shall concur in or object to a proposed par value within a reasonable period after receipt of the proposal. A proposed par value shall not take effect for the purposes of this Agreement if the Fund objects to it, and the member shall be subject to the provisions of paragraph 3 above. The Fund shall not object because of the domestic, social, or political policies of the member proposing the par value.

[a] Reproduced from *IMF Survey*, vol. 5, No. 2, 19 January 1976.

5. Each member that has a par value for its currency undertakes to apply appropriate measures consistent with this Agreement in order to ensure that the maximum and the minimum rates for spot exchange transactions taking place within its territories between its currency and the currencies of other members maintaining par values shall not differ from parity by more than four and one half per cent or by such other margin or margins as the Fund may adopt by an eighty-five per cent majority of the total voting power.

6. A member shall not propose a change in the par value of its currency except to correct, or prevent the emergence of, a fundamental disequilibrium. A change may be made only on the proposal of the member and only after consultation with the Fund.

7. When a change is proposed, the Fund shall concur in or object to the proposed par value within a reasonable period after receipt of the proposal. The Fund shall concur if it is satisfied that the change is necessary to correct, or prevent the emergence of, a fundamental disequilibrium. The Fund shall not object because of the domestic, social or political policies of the member proposing the change. A proposed change in par value shall not take effect for the purposes of this Agreement if the Fund objects to it. If a member changes the par value of its currency despite the objection of the Fund, the member shall be subject to the provisions of article XV, section 2. Maintenance of an unrealistic par value by a member shall be discouraged by the Fund.

8. The par value of a member's currency established under this Agreement shall cease to exist for the purposes of this Agreement if the member informs the Fund that it intends to terminate the par value. The Fund may object to the termination of a par value by a decision taken by eighty-five per cent of the total voting power. If a member terminates a par value for its currency despite the objection of the Fund, the member shall be subject to the provisions of article XV, section 2. A par value established under this Agreement shall cease to exist for the purposes of this Agreement if the member terminates the par value despite the objection of the Fund, or if the Fund finds that the member does not maintain rates for a substantial volume of exchange transactions in accordance with paragraph 5 above, provided that the Fund may not take such finding unless it has consulted the member and given it sixty days notice of the Fund's intention to consider whether to make a finding.

9. If the par value of the currency of a member has ceased to exist under the provisions of paragraph 8 above, the member shall consult the Fund and ensure that its exchange arrangements are consistent with the purposes of the Fund and are adequate to fulfil its obligations under article IV, section 1.

10. A member for whose currency the par value has ceased to exist under the provisions of paragraph 8 above may, at any time, propose a new par value for its currency.

11. Notwithstanding paragraph 6 above, the Fund, by an eighty-five per cent majority of the total voting power, may make uniform proportionate changes in all par values. The par value of a member's currency shall, however, not be changed under this provision if, within seven days after the Fund's action, the member informs the Fund that it does not wish the par value of its currency to be changed by such action.

# DOCUMENT TD/190*

## Technological dependence: its nature, consequences and policy implications

### *Report by the UNCTAD secretariat*

[*Original: English*]
[*31 December 1975*]

CONTENTS



* Incorporating document TD/190/Corr.1.

## *Introduction*

(i) Political independence has been achieved by the various regions of the developing world at different periods. Yet, irrespective of how long the countries concerned have enjoyed political independence, no region of the developing world has attained a state in which its economic structures, and the social and political systems with which these are inextricably intertwined, could be said to be free from the determining influence wielded by forces emanating from the already developed countries. The pervasive impact of this influence has now been widely recognized. In consequence, a new phase is beginning in the developing countries – a phase marked by a radical shift of vision and the search for new policies. The peripheral policies of the past, involving the minor modification of existing forms of relationships, are being replaced by a search for fresh patterns drawing upon economic, social and cultural resources indigenous to the territories of the third world. The strengthening of national technological capabilities is assuming a central place in development plans and policies. Attemps are therefore being made progressively to loosen those ties with developed countries which hamper the attainment of this objective, and to move towards greater co-operation amongst developing countries themselves.

### *The background to the agenda of the fourth United Nations Conference on Trade and Development*

(ii) The provisional agenda of the fourth Conference, adopted by the Trade and Development Board at the second part of its fifteenth session, reflects these concerns. Item 12, entitled "Transfer of technology", contains the following three specific issues:

Action to strengthen the technological capacity of developing countries;

Decisions on a code of conduct for the transfer of technology and, in the light of those decisions, a decision on the modalities for its establishment;

Action to be undertaken by UNCTAD with respect to the economic, commercial and development aspects of the international patent system in the context of the on-going revision of that system.

(iii) Each of the three issues represents a maturing of the major initiatives of UNCTAD on this vital subject to the point of decision-making. Resolution 39 (III), adopted at the third session of the Conference in 1972, was the starting-point of this concern. A number of secretariat studies, prepared in response to this resolution, have served as a background for major intergovernmental decisions in various UNCTAD forums. These initiatives have been reinforced by the recent decisions of the General Assembly. At its sixth special session, the Assembly adopted as one of the fundamental principles of its Declaration on the Establishment of a New International Economic Order, "Giving to the developing countries access to the achievements of modern science and technology, and promoting the transfer of technology and the creation of indigenous technology..."[1] Section IV of the Programme of Action adopted at the same session[2] set the main lines for restructuring the current arrangements concerning the transfer of technology.

(iv) The decisions at the seventh special session of the General Assembly have further reinforced these directives. Resolution 3362 (S-VII), in paragraph 1 of section III, states that "Developed and developing countries should co-operate in the establishment, strengthening and development of the scientific and technological infrastructure of developing countries". The question of strengthening the technological capacity of developing countries is in fact to be a main objective of the United Nations Conference on Science and Technology for Development to be held in 1978 or 1979 (see resolution 3362 (S-VII), sect. III, para. 7).

(v) The endorsement by the General Assembly of the Lima Declaration and Plan of Action on Industrial Development and Co-operation,[3] calling for a major change in the distribution of industrial output between the developed and developing countries, has now prepared the ground for translating general notions of industrial growth into concrete plans for action. A simple illustration will suffice to give an indication of the magnitude of the effort which would be required to meet this goal. It would be necessary for the industrial output of the developing countries to increase at the high rate of some 10 to 12 per cent a year, sustained over a quarter of a century – in other words, an expansion of these countries' output some 11- to 15-fold. This rate would have to be at least twice as high as that in the developed countries. If the costs of technological inputs were to grow at two to two and a half times the growth rate of industrial output, they would rise to some 20 to 35

[1] General Assembly resolution 3201 (S-VI) of 1 May 1974, para. 4 (*p*).

[2] General Assembly resolution 3201 (S-VI) of 1 May 1974.

[3] Adopted by the second General Conference of UNIDO, Lima, 12-26 March 1975. For the text, see UNIDO publication PI/38.

times the present levels. Obviously, inputs on this scale are impossible to finance. Hence, the central role of developing national technological capabilities and thereby reducing technological dependence.

*Major components of a programme of action*

(vi) Viewed against this background, the three specific issues contained in item 12 of the provisional agenda for the fourth Conference in fact constitute an integrated approach, with two principal aims:

(*a*) The restructuring of the legal and juridical environment (the code of conduct and the industrial property system); and

(*b*) The strengthening of the technological capacity of developing countries and thus the reduction of their technological dependence.

(vii) The first of these has been the subject of ample attention by the UNCTAD secretariat and by the intergovernmental bodies of UNCTAD. In contrast, issues connected with the second aim are only just beginning to receive the necessary detailed consideration. To assist in the consideration on this item, therefore, the secretariat has given greater attention in this report to the second of the above sets of issues.

(viii) Chapter I begins with a description of the asymmetries, or one-sided nature, of the technological dependence that has characterized the unequal relations between developing and developed countries. The inequality stems from the predominance of primary commodity production, weakness of industrial output and the consequent structure of trade; it is also the result of underdeveloped skill profiles, weak technological infrastructures and the inadequacy of financial resources. All these factors have worked towards reducing the capacity of the developing countries to assume control of decisions on issues of vital concern to their development and to formulate initiatives to attain their development objectives. The review in chapter II of how developing countries have sought to overcome their industrial backwardness underlines the very limited advance, if any, that has been made since the end of the Second World War. For the most part, the developing countries responded by attempting to recreate in their own economies the consumption and production processes of developed countries – an imitation which has not substantially improved living conditions for the majority of the population and which has perpetuated technological dependence.

(ix) There is thus an obvious need for bold initiatives to change the situation; but nowhere has a comprehensive framework of policies been developed which integrates policies for imports of technology with the creation of national technological capabilities. In chapter III, an attempt is made to fill this gap by outlining the main components of a new programme of action at the national, regional and international levels. The final chapter presents a brief summary of the issues for action over the next stages of intergovernmental deliberations.

CHAPTER I

## *The nature of technological dependence*

1. The concept of dependence can be given several interpretations varying from reliance, which can be mutual, to being subordinate, which is certainly asymmetric. It is important to distinguish between these different connotations in analysing technological dependence. Technological dependence of one country on another in the sense of mutual reliance is not in itself a cause for concern, and may indeed facilitate prosperity through the division of labour. The United Kingdom may well rely on the ability of France to make wine, while France relies on the ability of the United Kingdom to produce whisky. The picture is quite different when the relation is one-sided, and the concept of technological dependence refers to such an asymmetric form of dependence. A typical developing country depends technologically on developed economies in a manner that is quite asymmetric, involving a relation of subordination, and it is this asymmetry that makes the notion of technological dependence a central concern in economic development.

2. The development of the asymmetric features of technological dependence is largely the result of the industrial revolution, and in particular of the form that modern capitalism has taken. The dominance relations of the colonial era have helped to foster and perpetuate this asymmetry. The growth of such asymmetry and its numerous implications have been extensively discussed in recent years by economists of varying schools of thought. The characteristics of dependence as it exists today cannot be dissociated from the historical process that has brought this asymmetry into being. While the experiences of the developing countries in different parts of the world are by no means uniform, they have enough characteristics in common to make it fruitful to view technological dependence as a global problem, without of course losing sight of variations within the over-all pattern.

3. This chapter seeks to identify the various manifestations of technological dependence. Technology involves not merely the systematic application of scientific and other organized knowledge to practical tasks, but also the social and economic atmosphere within which such application has to take place.[4] Furthermore, technology refers not only to ways of producing goods, but also ways of fulfilling needs and deriving satisfaction. The technology of *consumption* has a profound impact on the structure of the economy, influencing the goods and services to be produced.[5] Even the attitudes and values of people are, in a

[4] See C. Cooper, "Science, technology and production in the underdeveloped countries: an introduction", *The Journal of Development Studies* (London), vol. 9, No. 1 (October 1972). See also O. Sunkel, *External Economic Relations and the Process of Development: Suggestions for an Alternative Analytical Framework*, discussion paper No. 51 (Brighton, University of Sussex, Institute of Development Studies, June 1974).

[5] Consumption technology refers to the physical and other properties of goods in relation to the needs that they satisfy. See F. Stewart, "Technology and Employment in LDCs [less developed countries]", in *World Development* (Oxford), vol. 2, No. 3, March 1974. See also section E of chapter II below.

sense, a part of technology since they affect the capabilities of a nation.[6] Broadly defined, technological dependence covers all these issues, and it is in this broad sense that the expression will be used in this report.

4. There are several distinct though highly inter-related aspects of technological dependence of developing countries. Bearing in mind the relevance of asymmetry in the concept of technological dependence, the following aspects – some of which are obviously more important than others – seem to need careful scrutiny.

### A. Weaknesses of production and trade structures

#### 1. *Asymmetry of commodity pattern*

5. A somewhat intractable but important aspect of technological dependence concerns the asymmetry of the commodity pattern. The types of consumer goods consumed in developing countries reflect the influence of *mores* in the advanced industrialized nations, and this applies particularly to the consumption of the upper classes.[7] The technological dependence of developing countries on the richer ones thus extends to taste formation also, leading to a significant restriction of the economic options open to developing countries (in the absence of radical political changes transforming the structure of economic classes on which this commodity pattern depends).

#### 2. *Asymmetry of means of production*

6. Asymmetry of the means of production reflects the typically sharp difference in the abilities of developing and developed countries to produce machinery and other capital goods needed for production. This is certainly one cause of the difference between the technological capabilities of different types of economy.[8] There is little doubt that the sophistication needed in the manufacture of capital goods makes an important contribution to the utilization and adaptation of these goods, especially when modern designs are involved.

#### 3. *Asymmetry of trade dependence*

7. One consequence of the dependence of developing countries on the more industrialized nations for the supply of technical know-how, patents, management and finance is the power that rests in the latter countries to influence trade policy in the former. This can, for example, take the form of an agreement by the developing country not to export certain products utilizing specific know-how, or a requirement to import machinery and other goods from some specified enterprise. This asymmetry of trade dependence may put a developing country at a considerable disadvantage in the utilization of modern technology and in making use of the best available exchange opportunities.[9]

### B. Technological and financial dependence

#### 1. *Asymmetry of technological knowledge*

8. Asymmetry of technological knowledge largely reflects the fact that modern techniques of production were generally evolved in the developed countries and that there are barriers – both natural as well as artificial – to the transmission of this knowledge. This technological asymmetry leads to two rather different consequences, namely, (*a*) the absence in developing countries of some technical knowledge that is widely available in the developed countries, and (*b*), the absence in both developed and developing countries of knowledge of possible technical processes which would be of particular interest to developing countries but not to the developed ones.[10] Thus the asymmetry of technological knowledge is a matter both of the unequal availability of existing knowledge and of the world shortage of innovations geared towards the requirements of the economies of the developing countries, e.g. making better use of surplus labour or of specific local resources, including environmental resources, in producing goods for domestic consumption.[11]

#### 2. *Asymmetry of skills*

9. The exploitation of production opportunities depends not merely on the knowledge of technical processes but also on the skill to operate these processes efficiently. The shortage of skilled labour in developing countries is, therefore, another aspect of technological

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[6] See A. Sen, "The concept of efficiency" in M. Parkin and A. R. Nobay, eds., *Contemporary Issues in Economies (Proceedings of the Annual Conference of the Association of University Teachers of Economics, Warwick, 1973)* (Manchester, Manchester University Press, 1975), pp. 196-210.

[7] See P. Streeten and M. Lipton, eds. *The Crisis of Indian Planning: Economic Planning in the 1960s* (London, Oxford University Press, 1968); and F. Stewart, *loc. cit.* The concentration on these foreign goods also leaves less scope for indigenous technological and scientific developments.

[8] See M. Merhav, *Technological Dependence, Monopoly, and Growth* (Oxford, Pergamon Press, 1969). See also A. Fishlow, "Empty economic stages?", *The Economic Journal* (London, vol. 75, No. 297), March 1965, pp. 112-125.

[9] This is over and above the disadvantages that apply to developing countries because of the general nature of the trade relationships involved, leading to some form of "unequal exchange". See A. Emmanuel, *L'échange inégal; Essai sur les antagonismes dans les rapports économiques internationaux* (Paris, F. Maspero, 1969); S. Amin, *Le développement inégal: Essai sur les formations sociales du capitalisme périphérique* (Paris, Editions de Minuit, 1974); and A. Mitra, "Equivalence in exchange: a sceptical note", in A. Mitra, ed., *Economic Theory and Planning* (Calcutta, Oxford University Press, 1974), pp. 141-150.

[10] See the distinction drawn between the "communications gap" and the "suitability gap" in P. Streeten, "Technology gaps between rich and poor countries", *Scottish Journal of Political Economy* (Edinburgh), vol. XIX, No. 3 (November 1972).

[11] The utilization in developing countries of local resources of particular interest to the *developed* capitalist countries has, of course, been a common feature of economic imperialism, e.g. copper mining in Rhodesia.

dependence. The type of shortage varies from country to country. While some developing countries have a large supply of degree-holding engineers, qualified doctors and scientists, there still tends to be an acute shortage of skills that come mostly from practice and learning by doing. In general, the skill asymmetry tends to be sharpest at the down-to-earth level.

### 3. *Financial asymmetry*

10. Financial asymmetry arises with respect both to direct private investment and to loans and aid from developed countries to developing ones. The financial dependence of developing countries has been much discussed. Since finance is an important part of the control of business decisions, financial asymmetry also implies an asymmetry of decision-making. This is most conspicuous in the case of direct private investment, for example by transnational corporations,[12] but the influence of finance on decisions is more widespread, affecting public bodies also. In the financial sphere, the carrot-and-stick method is frequently very effective, and it is used by the governments of developed countries.

## C. Capabilities of control and initiative

### 1. *Asymmetry of control*

11. The last two asymmetries listed are somewhat more general and are related to some of the specific asymmetries already touched upon. The asymmetry of control refers to the fact that many decisions affecting developing countries are, in fact, taken in developed countries, leading thereby to a dichotomy between those who take decisions and those who take the consequences of those decisions. This applies particularly to business decisions involving a choice of techniques and products for developing countries, especially when made by transnational firms; this is closely linked with the financial asymmetry discussed earlier. But the phenomenon is more general, and the control reflects the pervasive influence – political, economic and cultural – of developed countries on life in the developing world. It should be noted in addition that there are also asymmetries in terms of regulations that reinforce this asymmetry of control. The imperfect markets for technology and capital often permit firms from industrialized countries to obtain special treatment in the developing countries in terms of governmental regulation. While this is essentially a part of the price that is extracted from the latter for the supply of technology or capital, the consequences of such concessions are not always easy to understand.[13]

### 2. *Asymmetry of initiative*

12. Finally, there is a basic difference between the typical developed country and the typical developing one in the ability to assume the initiative in the technological sphere, and indeed in the confidence necessary to do so even when the technical ability exists. In a state of imitative existence, the boldness needed to challenge the received technology is usually absent. This asymmetry of initiative may be hard to quantify, but it is certainly one of the more fundamental characteristics of under-development.

CHAPTER II

# *Technological dependence and recent development experience*

13. Although the application of imported science and technology over the last quarter of a century has brought some progress in accelerating the growth of output, improving material standards of life and spreading modernization, the low-income countries still find themselves unable to meet the basic needs of the majority of their populations. The purpose of this chapter is briefly to consider the extent to which the prevailing approach to industrialization, based on a reliance on the transfer of technology from developed country enterprises, is capable of contributing to a diminution of this problem.

14. In the fifteen years following the Second World War, over 60 countries gained formal independence and the total number since then has grown to nearly 80. These countries entered political independence with a backlog of crushing poverty, massive illiteracy and little accumulated capital or industrialization experience. Emancipation from alien rule was accompanied by a rising political consciousness, which expressed itself in demands for modernization. The best way of accelerating industrialization, it seemed, was to tap the vast fund of production technologies that had already been developed in the advanced countries. The technology was not free but, like the goods that it was used to produce, it was traded and could be bought or leased – mainly from transnational corporations domiciled in the industrialized countries, which had made themselves its proprietors.

## A. The historical pattern

15. Traditionally, the transfer of technology to developing countries, largely in the form of direct foreign

[12] See J. Dunning, ed., *The Multinational Enterprises* (London, Allen & Unwin, 1971), and *Economic Analysis and the Multinational Enterprises* (London, Allen & Unwin, 1974); R. Vernon, *Sovereignty at Bay: The Multinational Spread of U.S. Enterprises* (London, Longmans 1971); P. Streeten, "The multinational corporation and the nation State", in *The Frontiers of Development Studies* (London, Macmillan, 1972), pp. 223-238; and P. Streeten, "The theory of development policy", in J. Dunning, *Economic Analysis... (op. cit.)*.

[13] Even if the firm in question has a clear idea as to what it wants to do with its privileges, the Government of the developing country may not be able to gauge *ex ante* the real price involved. There is some uncertainty arising also from the complexity of intra-firm trading and transfer pricing used by multinational enterprises, which is baffling to the poorly staffed bureaucracies in developing countries: see D. Sears, "Big companies and small countries: a practical proposal" in *Kyklos* (Basle), vol. 16, No. 4, 1963.

investment, has taken place in the extractive sector (petroleum, mining and export agriculture). This can be seen from the accumulated stock of foreign investment, in which the share of this sector was very high in the past and accounted for nearly one-half as late as 1967, compared with about 30 per cent in manufacturing.[14] More recently, however, additions to this stock (by United States firms, at least) have been strongly dominated by manufacturing.[15] reflecting in part the results of deliberate policies adopted by the developing countries.

16. For the metropolitan countries, the motivation for foreign investment in the extractive sector has been and is to secure access to critical imports of raw materials, and although the resulting exports from the developing countries have in recent years helped to generate the foreign exchange resources they need for the financing of development, the direct effects on modernization, the dissemination of skills and the creation of employment in those countries have been quite small.

17. For all but a small minority of developing countries, the main feature of industrialization after the war, following the example set by continental Europe and the United States in the latter part of the nineteenth century, was the attempt to create internal markets for manufactured goods by the establishment of a system of high tariffs and other types of restrictions on imports. The fledgling industries thus created were to produce domestic substitutes for goods that had previously been imported. The desire for greater economic independence was a natural outgrowth of political independence. The aim of these countries was to secure control of their own instruments of production and to end dependence on "centres of decision" situated abroad.[16] In the absence of a sufficiently developed entrepreneurial spirit among potential industrialists, protection was felt to be necessary in order to stimulate local initiative, mobilize savings and enhance the establishment of small enterprises that could not become firmly established without the umbrella of tariffs.

18. Thus, there were two corner-stones to the strategy of industrialization: importation of technology from the industrialized countries, and the substitution of domestic manufactures for imports.

## B. Transnational firms, dependence and the conditions of exchange

19. In reviewing the results of this strategy, it is essential to keep in mind the pervasive influence of the world-wide market for technology and of the respective positions of transnational enterprises and developing countries in that market. The market has the following peculiarities: it is highly imperfect, with great monopoly advantages for the seller because of secrecy and/or the protection of patents and trade-marks; the production technology (whether in the form of pure knowledge or in that of foreign investment or machinery) is transferred under terms that are the outcome of negotiations between buyers and sellers in situations approximating monopoly or oligopoly; the final returns and their distribution depend on the relative power of the bargainers.[17]

20. The probability of an unfavourable outcome is greater in the case of developing countries because of the asymmetry of technical knowledge described in chapter 1 above. Evidence of it is most vividly seen in the negligible participation of developing countries in the ownership of patents, reported in study by the UNCTAD secretariat, which shows that only 6 per cent (200,000) of the estimated 3.5 million patents in existence in 1972 were granted by developing countries, and that less than one-sixth of that total was owned by nationals of those countries.[18]

21. It is true that several developed countries are also heavy net importers of technology and may have few patented inventions to their credit. The seriousness of technological dependence as it applies to the poorer countries, however, is that, because of an absence of experience of modern technology generated by historical factors, there is a lack of skills. This can be of two kinds: (*a*) a shortage of the relatively abstract, high-level skills needed in order to make technological choices, both in firms and in government, to appraise technology and to carry out research on the development of new technologies; and (*b*) a lack of the more down-to-earth expertise needed in order to use tools and operate mechanical equipment. The table below shows the decidedly low endowment of developing compared with developed countries in terms of type (*a*) skills. Thus, in 1970 there was an average of only about 6 engineers and scientists per 10,000 population for the 8 African countries for which data were available, compared with figures of 22 for Asia and 69 for Latin America. This contrasts with a figure of 112 per 10,000 in

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[14] According to OECD, Development Assistance Directorate, *Stock of Private Direct Investments by DAC Countries in Developing Countries, end 1967* (Paris, 1972), table 1.

[15] According to statistics tabulated by S. Pizer and F. Cutler, in United States of America, Department of Commerce, *U.S. Business Investments in Foreign Countries: A Supplement to the "Survey of Current Business"* (Washington, D.C., U.S. Government Printing Office, 1960). See also United States of America, Department of Commerce, *Survey of Current Business* (Washington, D.C., U.S. Government Printing Office), vol. 41, No. 8 (August, 1961) and vol. 54, No. 8, part II (August 1974).

[16] A strategy of export-based development of the manufacturing sector seemed less desirable because of the implied dependence on the markets of the "centre", the trade barriers facing the traditional items most suitable for export to these markets, and the difficulty of meeting the quality requirements for consumer acceptance of more technologically-sophisticated products. For a discussion of the origins of import substitution policies see I. Little, T. Scitovsky, M. Scott, *Industry and Trade in Some Developing Countries: A Comparative Study* (London, Oxford University Press, 1970), chapter. 2.

[17] For a full discussion of these issues, see C. V. Vaitsos, "Transfer of resources and preservation of monopoly rents"; in *Economic Development Report* (Cambridge, Mass., Harvard University, Center for International Affairs, No. 168, 1970).

[18] *The role of the patent system in the transfer of technology to developing countries* (United Nations publication, Sales No. E.75. II.D.6), tables 7 and 12.

TABLE

**Technological dependence: selected socio-economic indicators**

*(averages expressed as medians for 1970 or latest year available)*

| | *Developed market-economy countries*[a] | *Developing countries and territories* | | | |
|---|---|---|---|---|---|
| | | *Africa*[b] | | *Asia*[c] | *Latin America*[d] |
| I. *Science and technology* | | | | | |
| (i) Ratio of total stock of scientists and engineers per 10,000 inhabitants | 112 | 5.8 | | 22.0 | 69 |
| (ii) Ratio of technicians per 10,000 inhabitants | 142.3 | 8.3 | | 23.4 | 72.2 |
| (iii) Number of scientists and engineers engaged in R and D per 10,000 inhabitants | 10.4 | 0.35 | | 1.6 | 1.15 |
| (iv) Number of technicians engaged in R and D per 10,000 inhabitants | 8.2 | 0.4 | | 0.6 | 1.4 |
| (v) Expenditure on R and D as percentage of GNP | 1.2 | 0.6 | | 0.3 | 0.2 |
| II. *High-level manpower* | | | | | |
| (vi) Professionals and technicians as percentage of economically active population | 11.1 | ... | | 2.7 | 5.7 |
| (vii) Percentage of the economically active population employed in manufacturing sector | 25.4 | 3.5 | | 10.5 | 14.1 |
| | | high[f] estimate | low[f] estimate | | |
| (viii) Literacy rates (percentage) | 96[e] | 20 | 15 | 32 | 77 |
| (ix) Ratio of primary and secondary enrolment to school-age population (percentage) | 92[e] | 32 | | 56 | 78 |

*Sources:* (i)–(V): UNESCO, *Statistical Yearbook, 1973,* table 8.3; and United Nations, *Statistical Yearbook, 1974,* table 199. (vi) and (vii): ILO, *Year Book of Labour Statistics, 1974,* tables 2A and 2B. (viii) and (ix): *Handbook of International Trade and Development Statistics, Supplement 1973,* table 6.8.

NOTE. The classification used in this table is intended for statistical convenience and does not necessarily imply any judgement regarding the stage of development of any particular country.

[a] The size of the sample in this column varies with the indicator, ranging from four countries in line (ii) to 25 countries in line (ix).

[b] The size of the sample in this column varies with the indicator, ranging from eight countries in lines (i) and (ii) to 46 countries in lines (viii) and (ix).

[c] Excluding China. The size of the sample in this column varies with the indicator, ranging from seven countries in line (vi) to 36 countries in lines (viii) and (ix).

[d] The size of the sample in this column varies with the indicator, ranging from seven countries in lines (i) and (ii) to 43 countries in line (viii).

[e] Including Greece and Turkey.

[f] Precise figures were not given.

developed market-economy countries. The same situation prevails for every socio-economic indicator about which it was possible to obtain information. Among developing regions, Africa consistently shows the worst situation and Latin America generally the best, with Asia in an intermediate position.

22. It should not be inferred from the table that the solution to the technology problem is simply to make good the deficiencies shown, e.g. by educating a greater number of high-level manpower. The present outflow of scientific personnel from developing countries already demonstrates a probable outcome if such a policy were undertaken in the absence of a parallel increase in the domestic demand for such skills.[19] Moreover, the quantitative deficiencies in the sphere of science and technology depicted in the table may be less significant than the fact that a great deal of scientific and technological activity in developing countries is un-

[19] For a discussion of the economic implications of the brain drain, see "The reverse transfer of technology: Its dimensions, economic effects and policy implications – A study by the UNCTAD secretariat" (TD/B/C.6/7).

connected with fundamental needs.[20] There is no quantitative measure of the comparative lack of the second type of more mundane skills and capabilities directly connected with the productive process. As was stated in chapter 1, these capabilities are not the product of formal technical training so much as of on-the-job experience, which is more difficult to produce. Consequently, the scarcity of these skills is the most acute for developing countries.

23. The most commonly cited advantage for developing countries which is provided by the transnational corporation is that it offers at one and the same time technology and a number of other crucial inputs such as financial resources, organizing capability, machinery and intermediate goods, and also distribution channels for exports. It is frequently overlooked that the transnational corporation also strives to maintain its advantage by consolidating its control over the capacity to generate all of these inputs. In doing so, it deprives the developing country of the capacity to make its own technological and economic decisions. A few statistics will document the dominance that is exercised over one of the above inputs – technology. In the United States, which is responsible for 70 per cent of all (public and private) expenditure on research and development in non-socialist countries, the transnational corporations accounted for an average of 52 per cent of total private R and D expenditure in 1966, of which only 6 per cent occurred overseas – mostly in Canada, the United Kingdom and Europe.[21] Of the $2,760 million overseas receipts in royalties and fees for the transfer of technology by United States firms in 1972, it is estimated that between 85 and 90 per cent went to transnational corporations and that three-quarters of that sum originated from their affiliated firms.[22]

24. The impact of the transfer of technology is strongly conditioned by the multi-plant (or multi-branch) spread of the transnational corporation and its unified approach to the management of its activities so as to maximize global rather than national profits. Although it may have a clear logic in terms of the efficient operation of the corporations, the location of decision-making centres outside the borders of the developing countries in which these corporations operate tends to foster an international division of labour which accentuates the dominance/dependence relationship described in chapter 1 above.

25. The discussion below of the effects of the technological aspects of recent industrialization strategies of developing countries will concentrate on three main issues: (*a*) the foreign exchange cost of technology transfer; (*b*) the appropriateness of the technology, and (*c*) the possibility of technological development.

### C. Foreign exchange costs: some determining factors

26. As has been shown in previous studies issued by the UNCTAD secretariat, the foreign exchange cost of the transfer of technology represents a considerable burden on the balance of payments of developing countries,[23] and the over-all balance-of-payments impact of individual investment projects has often been on the negative side.[24] Those findings are indirectly supported by other studies which have shown a negative value added calculated at world prices for a number of industries in developing countries[25] and a negative aggregate impact from the activities of transnational corporations on the balance of payments of host countries.[26] At least three types of practices by transnational corporations tend to diminish the balance-of-payments benefits to developing countries. These include the tendency to rely on sources of finance within the host country, although admittedly this sometimes mobilizes domestic savings; the imposition of formal and informal restrictions on exports and sources of supply for their affiliates and independent licensees; and the over-pricing of imports or under-pricing of exports by these enterprises.

27. In no small part, these practices represent the inevitable exercise of market power. But the ease with which supplying firms have been able to extract excessive returns on their technology through these or other practices is due in part to the nature of the import substitution policies carried out by the governments of developing countries. High tariffs and restrictions shutting out competing imports of consumer goods, combined with low tariffs on capital goods, have permitted protected industries to

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[20] See A. Herrera, "Social determinants of science policy in Latin America: explicit science policy and implicit science policy", *The Journal of Development Studies* (*op. cit.*). See also the discussion in section F below.

[21] United States Senate, Committee on Finance, *Implications of Multinational Firms for World Trade and Investment and for U.S. Trade and Labor* (Washington, D.C., U.S. Government Printing Office, 1973), p. 583.

[22] *Ibid.*, p. 600, and United States of America, Department of Commerce, *Survey of Current Business*, vol. 53, No. 12, (December 1973), p. 14.

[23] *Major issues arising from the transfer of technology to developing countries: Report by the UNCTAD secretariat* (United Nations publication, Sales No. E.75.II.D.2).

[24] See P. Streeten and S. Lall, "Main findings of a study of private foreign investment in selected developing countries" (TD/B/C.3/111 and Corr.1), summarizing the results of an analysis of 159 firms in six developing countries.

[25] See ECAFE, *Intraregional Trade Projections, Effective Protection and Income Distribution: vol. II, Effective Protection* (United Nations publication, Sales No. E.73.II.F.12), p. 18; S. Lewis Jr., *Pakistan Industrialization and Trade Policies* (London, Oxford University Press, 1970), pp. 84 and 85; and B. Balassa *et al.*, *The Structure of Protection in Developing Countries* (Baltimore, Md., Johns Hopkins University Press, 1971).

[26] During the period 1966-1970, when the aggregate United States balance of payments (current account plus long-term capital account) as a whole deteriorated, that of transnational corporations improved by $2.8 billion, leading to the conclusion (expressed in United States Senate, Committee on Finance, *op. cit.*, p. 29) that transnational corporations "... in their transactions with the United States, exert a uniformly large, negative impact on the current accounts of balance of payments of host countries (conversely, of course, they have a favourable impact on the corresponding account of the U.S. balance of payments)".

price their products well above world market prices.[27] For nationally owned "infant industries", the protection creating a monopoly market may have been necessary as a temporary measure permitting them to attain an efficient scale of production. It has not been justified for an indefinite period to prolong the existence of excess capacity, or of units too small ever to operate efficiently in domestic markets of limited size.[28] When, as is frequently the case, the protection has applied to the foreign affiliates of dominant, well-established transnational firms, it is simply a gift further inflating potential monopoly profits which are then remitted through the familiar channels of transfer pricing, payments for know-how and trade-marks, etc., which appear as costs on the affiliates' income statements.[29] Opportunities for excessive payments for imported technology have also been enhanced by the provision of a host of other investment incentives, such as generous tax holidays, low-cost credits and under-pricing of utilities. It may be said that the competition among developing countries to offer the most generous terms for the attraction of technology is itself a result of technological dependence.

### D. Appropriateness of production technologies

28. A major cause of disappointment with the progress of the Second United Nations Development Decade has been the persistence of unemployment and underemployment and the failure of the growth rate of employment to keep up with the growth of population in much of the third world. It has become evident that the rapid expansion of industrial output is not by itself sufficient to solve this problem. In the great amount of literature on the subject, the most frequently prescribed remedy is a greater reliance on efficient technologies using a high ratio of labour to capital. A strong case may exist for choosing more labour-intensive techniques, even in those cases where they are somewhat inferior to others in terms of productive efficiency, if they are preferred by workers and are more suitable to local institutions and traditions.[30] In general, the industries of developing countries have tended to employ techniques which have not led to the adequate utilization of domestic resources, including environmental resources. Moreover, there is a pronounced tendency for capital intensity to increase with time – partly owing to shifts in industrial patterns – which is another way of saying that the amount of investment necessary in order to create a job is becoming progressively greater.[31] The technology marketed by transnational firms in import-substituting industries has been of the same, labour-saving type used in industries in their own countries. In contrast, the same firms have in recent years been a major source of labour-intensive methods where they have established wholly owned subsidiaries for the export of manufactures, usually to their own countries.[32] But these essentially assembly-type operations continue to represent a small proportion of manufacturing investment in the vast majority of low-income countries where emphasis has been on the exploitation of domestic markets. It can be concluded, therefore, that the powerful combination of technology, capital and organizational skills at the disposal of firms in developed countries has not contributed optimally to the solution of the employment problem and may actually have aggravated it in those instances where it has replaced traditional patterns of production.[33]

29. The accumulating body of scattered empirical evidence on the existence of labour-using techniques – some in current use and others long discarded by developed country firms – eliminates the absence of such techniques as a satisfactory explanation for the prevalence of capital-intensive production processes in the transfer of technology to developing countries.[34] Among the other explanations, the most important is that the market prices paid for capital and labour in developing countries do not correctly portray their relative scarcities or, more generally, give the wrong incentives to firms choosing techniques of production. Technologies designed where labour is scarce are transferred unaltered to poor countries where labour is abundant because they already exist and because the heavily protected, monopolistic or oligopolistic markets of these countries obviate the need to develop new technologies. Even where there is competition, market wage rates and interest rates on borrowed capital are an insufficient guide for choosing the techniques that are the most desirable from society's point of view. Moreover,

[27] It is worth noting that, apart from Tsarist Russia and the United States of America, developed countries appear to have had significantly lower tariffs than developing countries at comparable stages of development. See Little, Scitovsky, Scott, *op. cit.*, pp. 162 and 163.

[28] Value added calculations in eight Asian countries have demonstrated in a sizeable number of manufacturing industries that if protection were eliminated the technologies would no longer be viable. See ECAFE, *op. cit.*, p. 18.

[29] Cf. C. V. Vaitsos, *Intercountry Income Distribution and Transnational Enterprises* (Oxford, Clarendon Press, 1974), p. 123.

[30] See A. Sen (*op. cit.*).

[31] In studying high-technology industry in Colombia, for example, one economist found that whereas it took 45,000 pesos to employ one worker in 1957, by 1966 it took 100,000 pesos of 1957 value. See International Labour Office, *Towards Full Employment: A Programme for Colombia Prepared by An Inter-Agency Team Organized by the International Labour Office* (Geneva, 1970), p. 113.

[32] See G. K. Helleiner, "Manufactured exports from less-developed countries and multinational firms", *The Economics Journal* (London), vol. 83, No. 329, March 1973, pp. 21 *et seq.*

[33] For a convincing theoretical demonstration of how capital-intensive technology transfer may lead to a reduction of both employment and not output, see "Major issues arising from the transfer of technology to developing countries: On some implications of technology transfer for trade, growth and distribution in developing countries", a study prepared by P. K. Bardhan, Professor at the Delhi School of Economics (TD/B/C.6/5).

[34] See D. Morawetz, "Employment implications of industrialization in developing countries: a survey", *The Economic Journal* (London), vol. 84, No. 335, September 1974, p. 491, for a summary of some of this evidence. See also the excellent studies prepared under the World Employment Programme of the International Labour Office, in particular A. S. Bhalla, *ed.*, *Technology and Employment in Industry: A Case Study Approach* (Geneva, 1975).

government policies such as tax incentives for investment, low tariffs on imported machinery and subsidized credit have had the effect of artificially lowering the price of capital relative to labour in developing countries.

30. The impact of particular techniques of production is not only conditioned by the intensity with which they use labour, but also by the general social, economic and natural environments in which they are applied. This point applies especially to agriculture, a sector which has only lately begun to attract the kind of attention it deserves in countries with rising food deficits and growing unemployment. Developed country agricultural techniques based on large-scale, highly mechanized methods of cultivation in temperate climates are not adapted to the tropical conditions, low land-to-labour ratios and lack of skills prevailing in developing countries. Development literature abounds with examples of imported farm machinery that falls into disuse the moment the experts have left.[35] Moreover, the socio-economic effects of imported technology depend critically on systems of land tenure, class structure and income distribution. Thus, although the introduction of high-yielding seeds through the green revolution succeeded in achieving spectacular increases in yields per acre in some cases, this mainly benefited rich landlords with access to credit who farmed in areas where irrigation and fertilizers were available.[36] A considerable potential exists for furthering the indigenous adaptation and development of simple technologies directed toward small-scale peasant farming and the creation of rural industry.[37] However, for many Latin American and some Asian countries, land reform would be a necessary precondition.

## E. Appropriateness of consumption technologies

31. Although transnational firms have been the principal source for the transfer of production technology, it has until recently been overlooked that they are also the main avenue for the transmission of "consumption technology".[38] A large proportion of the modern manufactured products consumed in developing countries today are either imported or were formerly imported from developed countries. Through their mastery of the techniques of advertising and product differentiation, and their application of global distribution and marketing strategies, transnational companies have helped to shape the consumption patterns of these countries. At the same time, consumer goods markets in these countries are dominated by urban middle and upper classes who have been the group most favoured by the unequal income distributions that have accompanied the type of import-substituting industrialization that has been pursued. It is these enclaves of affluence that have provided the main target for transnational firms.[39]

32. The main charge against import substitution is that it has concentrated on the wrong products. The inappropriateness of many of the rich country products introduced and promoted in the domestic markets of poor countries derives from the fact that they embody technological characteristics that are either unnecessary, undesired or too costly to meet the basic needs of nutrition, health, clothing and shelter.[40] Labour-intensive methods of production are sometimes excluded if these modern products of high quality are to be manufactured. The transnationals and their client firms in developing countries are not likely to be keen about or able to undertake the manufacture of goods that cater to the above-mentioned needs, for at least three reasons.[41] First, although the gains to society from their doing so would be high, private profitability is low on account of the limited purchasing power of the income groups that would consume the products. Secondly, the specific production of appropriate goods tailored to the unique environments of individual developing countries would be inconsistent with the principle of efficiency based on standardization and uniform specifications and quality characteristics. Modification of product characteristics is rendered more difficult in the case of highly differentiated goods that are covered by trade-marks or brand names identified in consumers' minds, rightly or wrongly, with a certain standard of quality.[42] Finally, such a policy would be inconsistent with the corporate ideology of achieving a "global structure of excellence" based on the western

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[35] Even for a relatively more technologically sophisticated country such as India, a recent review of all existing empirical studies of that country's massive tractorization campaign failed to find solid evidence of a clear over-all advantage compared with older techniques based on animal power. See A. Sen, "A study of tractorization in India", in *Employment, Technology and Development* (Oxford, Clarendon Press, 1975), appendix D.

[36] See K. Griffin, *The Green Revolution: An Economic Analysis* (Geneva, 1972).

[37] For an example of such an experiment in the United Republic of Tanzania, see G. MacPherson and D. Jackson, "Village technology for rural development: agricultural innovation in Tanzania", *International Labour Review* (Geneva), vol. 111, No. 2, February 1975, p. 105.

[38] See F. Stewart, "Choice of techniques in developing countries", in *The Journal of Development Studies* (*op. cit.*), and also "Technology and Employment in LDCs" (*loc. cit.*).

[39] Thus, Peter Drucker, a business consultant to transnational companies, has pointed out that within the "vast mass of poverty that is India" there is "a sizeable modern economy, comprising ten per cent or more of the Indian population, or 50,000,000 people". See his *The Age of Discontinuity* (New York, Harper & Row, 1969), p. 107, cited by R. Barnet and R. Müller in *Global Reach: The Power of the Multinational Corporations* (New York, Simon and Schuster, 1974), p. 174.

[40] Thus, the "brightening" agent in detergents is superfluous for making clothes clean; automobiles consume more energy per passenger mile than any other form of transportation; dacron shirts are uncomfortable in hot climates.

[41] This does not mean that there have not been superficial modifications in packaging and other characteristics in particular markets. Genuine efforts by Ford, Philips and National Cash Register have been made to develop appropriate products with relatively labour-intensive production technologies, but these appear to be isolated cases. See Stewart, "Technology and employment in LDCs" (*loc. cit.*), pp. 39 and 40.

[42] See "Systems, including industrial property systems, for improving the national scientific and technological infrastructures of the developing countries: report by the UNCTAD secretariat" (TD/B/C.6/AC.2/4), para. 39.

model.[43] In sum, the efforts needed to respond to the basic wants of the great majority of the third world's population are beyond the field of interest of the transnational corporations.

### F. Self-perpetuating features of dependence

33. The conclusion to be drawn from the foregoing analysis is that the prevailing model of industrialization based on the introduction and application of rich-country technologies to reproduce rich-country consumption patterns is both too costly and ill-suited for the satisfaction of basic material needs in developing countries. But the technologies and the goods they produce are inseparable from one another. The acquisition of know-how from developed country enterprises, chiefly transnational corporations, demands the use of techniques of production that are biased against labour and towards the manufacture of commodities catering mainly to an affluent tiny minority of the population in the third world. Conversely, to produce these same commodities demands the application of technologies obtainable under the terms and conditions set by the enterprises. Dependence is built into this industrialization process.

34. Moreover, the technological dependence of developing countries may be self-perpetuating. While the transfer of technology may facilitate the expansion of industrial output in these countries, it does not necessarily further the ability to produce that output, or, more precisely, the capacity to adapt and modify existing technology and to evolve new technologies. There are several reasons for this.

35. First, a large part of the transfer of technology takes place as part of direct foreign investment which in many instances results in majority-owned subsidiaries. So long as an industry or product group is under foreign control, the possibility of launching domestic technological initiatives in that industry remains academic. Because of the narrow, fragmented domestic markets for manufactures in many developing countries, a relatively minor capital outlay from the standpoint of a transnational company is sometimes sufficient to result in control or near control of an entire industry. In such industries, a national technology policy, if there ever is to be one, will have to await and be co-ordinated with nationalization.

36. Secondly, the other two major sources of the technology employed in the industrial sectors of developing countries are: (*a*) licensing agreements concluded with nationally-owned firms and covered by patents and/or trade-marks (disembodied technology); and (*b*) imports of machinery or intermediate goods (embodied technology) by nationally-owned firms without licensing agreements. In the case of trade-marks, the duration of validity has no limit. Consequently, so long as the trade-mark is used, it is necessary to use the technology that goes with it. Once the branded product has gained widespread consumer acceptance, there is little incentive for the licensee to abandon it and sustain the expense and risk of promoting his own trade-mark. Because of their limited duration, patent licensing agreements offer greater opportunities for developing domestic technological skills, and this is all the more true for the use of imported machinery without licensing. But in both cases the long-term gain to society from the use of a domestic technology is greater than the private gain to the entrepreneur. In the absence of special inducements to the contrary, the entrepreneur is likely to opt for the proven performance of foreign technology.[44]

37. Thirdly, in the consumer goods sector the superiority of transnational enterprises is based on constant product innovation coupled with highly sophisticated advertising and marketing techniques.[45] As a result, the consuming *élite* in developing countries is presented with a succession of new or "improved" products, each of which makes the one that preceded it obsolete. In following the kinds of policies described previously, developing countries have in effect committed themselves to the eventual domestic production of each new product and thus to the importation of the technology that corresponds to it. The technology comes both directly as pure know-how and already embodied in imported intermediate goods and machinery. The constant change together with the sophistication of some of the required technology deter its domestic replication. Hence import substitution is extremely incomplete and dependence is prolonged. This contrasts sharply with the experience of nineteenth-century developing countries for which the main thrust of technology transfer and technological advance was centred in the production of machinery and intermediate goods rather than new types of consumer goods.[46] The luxury consumption of the rich at that time mainly consisted of goods produced by the artisan class rather than imports, and the manufacture of capital goods, which was initially highly labour-intensive, developed in an organic relationship with domestic consumer goods production for the masses.

38. Fourthly, since foreign technology has tended to be a substitute for technologies that might have been developed by local scientists and engineers, and since the pre-capitalist sector (i.e. subsistence, agriculture and rural craft industries) as at present organized generates very little demand for these local inputs, scientific and technological institutions in developing countries have become alienated from productive activities.[47] Whereas in developed coun-

[43] As described in Barnet and Müller, *op. cit.*, chap. 2.

[44] There is a great deal of empirical evidence that this has frequently occurred in India. See K. K. Subrahmanian, *Import of Capital and Technology: A Study of Foreign Collaboration in Indian Industry* (New Delhi, People's Publishing House, 1972).

[45] In the United States of America, the principal objective of the research programme of 90 per cent of manufacturing corporations is reported to be development of new products and improvement of old ones. See W. E. Gustafson, "Research and development, new products and productivity change", *The American Economic Review* (Menasha, Wis.), vol. 52, No. 2, May 1962, p. 177.

[46] See D. Felix, "Technological dualism in late industrializers: on theory, history and policy", *The Journal of Economic History* (New York), vol. 34, No. 1, March 1974, pp. 194 *et seq.*

[47] See C. Cooper, *loc. cit.*

tries the inputs of local scientists and engineers are an investment item, in developing countries they are largely an item of consumption. In these circumstances, science and technology cannot contribute to the development of domestic technical capability.

39. The above remarks are not intended to suggest that the import of technology from developed countries is inherently undesirable, or that the solution is some kind of individual or collective autarky. Assuming that a particular technology is really needed, the only possibility in many instances may in fact be to import it from a developed country. However, it is clear that the gains from the technologically dependent industrialization that has actually taken place have not been equitably distributed either between receivers and suppliers of technology or among different income groups. Individual countries will have to decide on the special objectives of their technological and development policies in terms of their own priorities. For the majority of developing countries, the elimination of mass poverty and unemployment will be high on the list of objectives. Chapter I and the present chapter have shown that it will be difficult to advance toward this goal without the elaboration of a major new strategy emphasizing not only control over the transfer of technology, but also the creation of an authentic, indigenous technical capability.

## CHAPTER III

## *Issues for the Conference*

40. The purpose of the present chapter is to consider the principal elements that could comprise a new strategy in the field of technology. A fresh approach would require policies at two interrelated levels. One set of policies would seek to establish a new set of international norms to bring about a more equitable sharing between developing and developed countries of the benefits resulting from the transfer of technology. This is the subject of section A, which discusses an international code of conduct on the transfer of technology and the revision of the industrial property system. The other set of policies would have the aim of strengthening the capacity of developing countries to acquire, use, adapt and generate technology that meets their needs. Section B outlines a comprehensive strategy that could form the basis for action at the national, regional and international levels toward the fulfilment of this objective.

### A. Restructuring the legal and juridical environment

41. The concern of UNCTAD with the need for altering the existing international legal and juridical environment in the area of transfer of technology to serve the interests of the developing countries dates back to the first Conference in 1964. In its recommendation A.IV.26, the Conference called for the exploration of possibilities for the adaptation of existing legislation, and concluding appropriate agreements concerning "patented and non-patented technology". The recommendation was endorsed by the General Assembly in December 1965 in resolution 2091 (XX). However, the concrete steps necessary for implementing it had to await the adoption of resolution 39 (III) at the third session of the Conference in 1972.

42. In its interrelated decisions, resolution 39 (III) requested studies of "possible bases for new international legislation regulating the transfer from developed to developing countries of patented and non-patented technology" (para. 9), and more specifically of "the role of the international patent system in such transfer, with a view to providing a better understanding of this role in the context of a future revision of the system" (para. 10).

43. Since the adoption of this resolution, the UNCTAD secretariat has prepared major studies on these two interrelated subjects.[48] They have been considered at two sessions of the Intergovernmental Group on Transfer of Technology as well as by the Trade and Development Board. The progress made in these forums furnished the basis for the studies being taken up for intensive consideration by the Intergovernmental Group of Experts on a Code of Conduct on Transfer of Technology (5-16 May 1975) and by the Group of Governmental Experts on the Role of the Patent System in the Transfer of Technology (1-12 September 1975). The reports of both these expert groups,[49] together with the report of the Intergovernmental Group of Experts on a Code of Conduct on its resumed session,[50] held from 24 November to 3 December 1975, were considered by the Committee on Transfer of Technology at its first session.[51] The nature of the advances made is reviewed briefly below to serve as a guide in the preparatory phase of discussions leading to the fourth Conference.

#### 1. *The restructuring of the industrial property system*

44. The agreed conclusions and recommendations contained in the report of the Group of Governmental Experts on the Role of the Patent System in the Transfer of Technology[52] were endorsed at the first session of the Committee on Transfer of Technology. In its unanimously

[48] *The role of the patent system in the transfer of technology to developing countries* (*op. cit.*); "The possibility and feasibility of an international code of conduct on transfer of technology" (TD/B/AC.11/22); *An international code of conduct on transfer of technology: report by the UNCTAD secretariat* (United Nations publication, Sales No. E.75.II.D.15), *idem:* addendum (TD/B/C.6/AC.1/2/Supp.1/Add.1), and *idem:* summary of the report (TD/B/C.6/AC.1/2); "Promotion of national scientific and technological capabilities and revision of the patent system" (TD/B/C.6/AC.2/2); "The international patent system as an instrument of policy for national development" (TD/B/C.6/AC.2/3); "Systems, including industrial property systems, for improving the national scientific and technological infrastructures of the developing countries" (TD/B/C.6/AC.2/4).

[49] TD/B/C.6/1 and TD/B/C.6/8.

[50] TD/B/C.6/14.

[51] For the report on this session, see *Official Records of the Trade and Development Board, Seventh Special Session, Supplement No. 4* (TD/B/593).

[52] TD/B/C.6/8, annex I.

adopted resolution 3 (I) on the role of the industrial property system in the transfer of technology to developing countries, the Committee recommended that the process of revision of the Paris Convention for the Protection of Industrial Property and of the Model Law for Developing Countries on Inventions should be guided, *inter alia*, by the following considerations:

(*a*) The need to improve the conditions for adaptation of technology and for development of indigenous technology in developing countries through, *inter alia*, the training of personnel and the provision of access to relevant documentation;

(*b*) The need to promote an effective transfer of technology to those countries under fair and reasonable terms and conditions;

(*c*) That the importation of the patented product is not as a general rule a substitute for the working of the patent in the developing country granting it;

(*d*) That more adequate provisions are required to avoid abuses of patent rights and to increase the probability of patents being worked in the developing country granting them;

(*e*) That the introduction of forms of protection of inventions other than traditional patents (e.g. inventors' certificates, industrial development patents, and technology transfer patents) should be examined;

(*f*) That the need for technical assistance to developing countries in the field of industrial property, and in particular for expanded access to and utilization of patent documentation by developing countries, in order to facilitate the transfer, absorption, adaptation and creation of suitable technology should be recognized;

(*g*) That an in-depth review of the provisions on trade-marks should be carried out;

(*h*) That there should be new and imaginative studies of possibilities of giving preferential treatment to all developing countries;

(*i*) That an ultimate aim of the on-going process of revision should be to provide reasonable conditions for universal membership in the Paris Union.

45. Resolution 3 (I) also recommended that the Secretary-General of UNCTAD continue developing the activities of UNCTAD in this field, including the provision of technical assistance, and requested him to prepare or continue studies, in consultation with other appropriate agencies, on

(*a*) Improving the national scientific and technological infrastructures of developing countries with regard to industrial property;

(*b*) The creation of national and subregional centres;

(*c*) The impact of trade-marks, indications of source, appellations of origin and other subjects of industrial property protection on the developmental process of developing countries;

(*d*) The impact which new policies and legislation in the field of industrial property and related matters have on the developmental process of developing countries.

46. In the same resolution, the Committee on Transfer of Technology also requested the Secretary-General to convene a meeting of governmental experts in early 1977 to continue, in the light of the conclusions of the fourth session of the Conference, the examination of the economic, commercial and developmental aspects of industrial property in the transfer of technology to developing countries and to make recommendations thereon.

47. These conclusions mark a certain progress towards the revision of the industrial property system. Furthermore, the Committee also had before it the conclusions of experts from developing countries, which set out their views on the broad issues involved in the revision of the industrial property system.[53] After some introductory remarks, the document deals with the revision of international standards (the Paris Convention), national patent legislation and administration, and patents administration and guidelines for its operation.

48. A comparison of the resolution of the Committee and the conclusions of the experts from developing countries brings out clearly the ground that remains to be covered at the fourth Conference in order to set in motion the programme of action that remains to be undertaken by UNCTAD in the context of the revision of the industrial property system.

49. It is against this background that the significance of the directives given by the General Assembly at its seventh special session should be viewed. Paragraph 3 of section III of resolution 3362 (S-VII) states that:

> International conventions on patents and trade-marks should be reviewed and revised to meet, in particular, the special needs of the developing countries, in order that these conventions may become more satisfactory instruments for aiding developing countries in the transfer and development of technology. National patents systems should, without delay, be brought into line with the international patent system in its revised form.

50. There are two points in this decision which are pertinent to further consideration of this issue: the priority assigned to the revision of the international conventions and, as a corollary to that, the bringing of national patents systems into line with the revised international conventions. This demarcation of stages simply reflects the plain fact that the Paris Convention has served as the basis of national laws and practices. If the Paris Convention could be satisfactorily revised to meet adequately the special needs of developing countries, the way would be open for the recasting of industrial property systems, or the creation of some other system, so as to improve the scientific and technological capabilities of developing countries.

### 2. *An international code of conduct*

51. Since the third session of the Conference, the studies prepared by the UNCTAD secretariat have been the subject of intergovernmental consideration, leading to the convening by the Secretary-General of an Intergovernmental Group of Experts on a Code of Conduct on Transfer

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[53] TD/B/C.6/12, reproduced in annex III to the report of the Committee on Transfer of Technology on its first session.

of Technology in May 1975. The report of the Group and the report on its resumed session[54] were submitted to the Committee for its consideration.

52. Despite the complexity and newness of the subject and the understandable diversity of views on it, separate draft outlines were agreed upon by experts within both the Group of 77 and Group B; and a common agreement among experts of the Group of 77 and Groups B and D was reached on the following chapter headings for the code:

Preamble } Objectives[55]
Principles }
Definitions
Scope of application
Restrictive business practices[56]
National regulation of transfer of technology transactions
[Guarantees][57] [Responsibilities of source and recipient enterprises][58]
International collaboration and special treatment for developing countries
Applicable law and settlement of disputes
Other provisions

53. After examining the reports of the Intergovernmental Group of Experts on a Code of Conduct the Committee, in its decision 1 (I), decided to transmit them to the Board for consideration at its seventh special session, and expressed the view that the reports, "together with their annexes, will assist Governments in the 'decisions to be reached at the fourth session of the Conference, including a decision on the legal character of such a code', as called for in section III, paragraph 3, of General Assembly resolution 3362 (S-VII) of 16 September 1975". Special significance therefore attaches to the directive contained in section III, paragraph 3, of General Assembly resolution 3362 (S-VII), which states:

All States should co-operate in evolving an international code of conduct for the transfer of technology, corresponding, in particular, to the special needs of the developing countries. Work on such a code should therefore be continued within the United Nations Conference on Trade and Development and concluded in time for decisions to be reached at the fourth session of the Conference, including a decision on the legal character of such a code with the objective of the adoption of a code of conduct prior to the end of 1977.

### 3. *The next phase in intergovernmental decisions*

54. Quite clearly the stage is now set for taking the necessary decisions at the fourth session of the Conference concerning the establishment of an international code of conduct and the restructuring of the industrial property system.

55. It might be pointed out here that the *Ad Hoc* Group of Governmental Experts on the Revision of the Paris Convention, established by the World Intellectual Property Organization, held its first and second sessions from 11 to 17 February and from 15 to 19 December 1975 respectively, and will hold its third session from 26 April to 1 May 1976. The results of these sessions will obviously have a bearing on the direction to be taken by the revision of the Paris Convention, and particularly on the extent to which such revision will make it possible to utilize the Convention as an effective instrument of national development policy in developing countries. This would also help determine more clearly than is possible at this stage the interrelationship between the revision of the Paris Convention and the establishment of an international code of conduct on the transfer of technology to developing countries.

## B. Towards the technological independence of developing countries

56. The restructuring of the legal and juridical environment could help create the requisite conditions for a strengthening of the technological capabilities of developing countries, thereby reducing their technological dependence. To be fully effective, however, it should be supplemented by a comprehensive programme of action at the national, regional and international levels.[59] It may be recalled that Conference resolution 39 (III) recommended in paragraphs 3, 7, 8 and 12 of section II, and paragraphs 13 to 21 of section III, entitled "Improving the scientific and technological infrastructure", the necessary action on a wide range of interrelated issues. The decisions adopted at the sixth and seventh special sessions of the General Assembly reinforced the directives in resolution 39 (III) and subsequent initiatives within UNCTAD.

57. Past policies of simple import substitution of commodities have now run their course for most developing countries. The share of imports in total domestic sales has not lessened and balance-of-payments pressures have intensified. What has occurred is a change in the structure of external payments – from imports of consumer goods to imports of technology, either directly in the form of know-how or indirectly in the form of semi-manufactures and capital goods. Clearly, unless coherent policies are adopted for building up national technological capabilities, and unless such policies are supported by measures designed to take advantage of the positive influences of the international economy and to avoid its negative influences, it will be impossible to sustain a vast expansion in the industrial output of the developing countries.

58. It should be borne in mind, however, that a shift away from the existing, highly biased pattern of develop-

[54] TD/B/C.6/1 and TD/B/C.6/14.

[55] "Objectives" will be contained in either the preamble or in an expanded chapter entitled "Objectives and principles", as may be appropriate.

[56] The experts of Bulgaria, Czechoslovakia, the German Democratic Republic, Hungary, Poland and the USSR proposed the following heading: "Elimination of restrictive and discriminatory business and political practices in transfer of technology".

[57] Proposed by the experts of the Group of 77.

[58] Proposed by the experts of Group B.

[59] For a more detailed discussion of this issue, see document TD/190/Supp.1 below.

ment, in which at best one-fifth of the population of a developing country can live in tolerable conditions, implies not only changes in technology but also a major redistribution of the sources of wealth. It would be surprising if there were not in developing societies a minority that stands to derive substantial benefits from a continuation of the *status quo*. Since this same minority usually exercises most of the decision-making power, the type of comprehensive policies suggested in the present section could only be conceived and implemented within the broader context of far-reaching changes in the social, political and economic structures of developing countries.

59. In comparison with the initiatives described in the preceding section, only very limited progress has been made towards developing the comprehensive programme of action needed for strengthening the national technological capabilities of developing countries. Some of the more important elements of such a programme are described briefly below. The first session of the Committee on Transfer of Technology and the subsequent meeting of the Informal Group of Experts on the Establishment of Centres for the Transfer and Development of Technology have registered progress in some of these elements.[60]

### 1. *Action by developing countries at the national level*

#### (a) *Formulation of a technology plan*

60. Planning in general has been adopted as an instrument of policy in most developing countries. Most development plans are expressed in financial terms. Some of them also give quantitative expression to requirements of labour, skilled manpower, raw material and machinery inputs, etc. If any of these general outlines of plans are translated into concrete projects, it at once becomes obvious that each one of the projects has technological components. But so far nowhere has even an elementary technology plan been elaborated as an integral component of national development planning. But without such a technology plan, it is obviously difficult to decide whether the technological inputs required ought to be imported or should be met from domestic sources. Nor is it possible to ensure that the technological inputs will be appropriate from the point of view of resource use, basic consumption needs and environmental effects. In general, no systematic progress towards substituting appropriate domestic technologies for imported ones and the building-up of national capabilities can be achieved unless from the outset there is a broad planned framework involving a relatively longer time span within which individual projects can be fitted. It is of critical importance, therefore, to initiate the preparation of a technology plan as an integrated component of a development plan.

#### (b) *Policies on the transfer and development of technology*

61. The over-all plan will remain mere paper unless it formulates coherent policies on a wide variety of inter-related issues (for example, foreign exchange transfers; import and export policies; foreign investments; joint ventures; licensing arrangements; industrial property laws and practices; the transfer, adaptation and development of technology; the appropriateness of technology and environmental policy; engineering and research and development requirements; policies regarding the "brain drain",[61] education, etc.). The task has so far been carried out on an *ad hoc* and unco-ordinated basis. There is therefore an urgent need for the formulation of coherent policies on transfer and development of technology and their co-ordination with other relevant policies. The elaboration of the technology plan (see para. 60) could help to furnish the central framework for such a formulation.

#### (c) *National institutional machinery (centres)*

62. Conference resolution 39 (III) invited the developing countries to establish institutions if they do not have them for the specific purpose of dealing with the whole range of complex questions connected with the transfer of technology. It spelled out their functions, which were later elaborated in resolution 1 (II) of the Intergovernmental Group on Transfer of Technology[62]. It it obvious that no matter how elegant the plans or how sophisticated the policy framework, they cannot be implemented without the necessary institutional machinery. But it is precisely the failure at the implementation level which has characterized much of the past experience of a number of developing countries.

63. The UNCTAD secretariat has already prepared concrete proposals in a report.[63] Further work is in progress to map out the structure and requirements for the establishment of alternative centres for developing countries with varying special backgrounds, and for the creation of vitally needed supplementary linkages at the subregional level and interregional levels, taking into account various sectors of particular interest to developing countries. The report of the Informal Group of Experts on the Establishment of Centres for the Transfer and Development of Technology, contains the recommendations of the Group in this respect.[64]

### 2. *Co-operative action by developing countries*

#### (a) *Basic lines of action*

64. The General Assembly, at its sixth and seventh special sessions, emphasized the importance of co-operation among developing countries. In this connexion, it is may be recalled that the Conference, as early as 1972, at its third

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[60] The report of the Informal Group of Experts was issued under the symbol TD/B/595.

[61] For further details, see "The reverse transfer of technology: Its dimensions, economic effects..." (TD/B/C.6/7).

[62] See the report of the Intergovernmental Group on Transfer of Technology on its second session (*Official Records of the Trade and Development Board, Thirteenth Session, Annexes*, agenda item 6, document TD/B/424), annex I.

[63] "Establishment of centres for the transfer and development of technology" (TD/B/C.6/9/Add.3).

[64] See TD/B/595.

session, spelled out the specific steps that needed to be taken to foster co-operation in the field of technology among developing countries themselves. Paragraph 15 of its resolution 39 (III) reads as follows:

15. *Further invites* the developing countries at the regional and interregional level to consider action:

(*a*) To assist the transfer of technology to themselves by exchanging information concerning their experiences in acquiring, adapting, developing and applying imported technology, and in this regard, to set up regional or subregional information centres;

(*b*) To make appropriate institutional arrangements for the training and exchange of technical personnel;

(*c*) To establish joint technological research centres for projects of regional interest and for exchanging adapted or recently developed imported technology between developing countries within the region, or between different regions;

(*d*) To promote the study of scientific and technological projects between developing countries with common technological requirements arising from similarities in their sectoral structure of production;

(*e*) To set up machinery to facilitate the dissemination and exchange of technologies originating in the developing countries, so that the comparative advantages and specialization offered by each sector of activity may be fully utilized;

(*f*) To endeavour to co-ordinate their policies with regard to imported technology, including its adaptation to domestic conditions."

65. During the time that has elapsed since the Conference, few concrete steps have been taken to implement these directives. On the other hand, the entire environment for undertaking decisive action towards the collective self-reliance of the developing countries is vastly more propitious in 1976 than it was in 1972. Shortages of foreign exchange, skilled manpower and engineering capabilities have given way to growing surpluses of these items in some countries, which are at present flowing away to the developed countries. Moreover, a number of developing countries have now generated various degrees of capabilities in one or the other area vitally needed for rapid economic and social advance. The growth of a large range of complementarities among them has created the basis for developing decisive action for promoting the collective self-reliance of developing countries.

66. For any such initiative towards collective self-reliance to succeed, it is essential that the developing countries grant each other preferential treatment in the transfer and development of technologies, in accordance with paragraph 4 (*s*) of General Assembly resolution 3201 (S-VI) and the revised draft outline for a code of conduct prepared by the experts from the Group of 77.[65] Moreover, preferential arrangements for co-operation – covering public sector procurement, the supply of capital, skilled manpower and technology, etc. – would be more effective if they were part of existing or planned treaties, agreements and arrangements involving regional co-operation and integration.

67. The various centres for the transfer and development of technology could, under certain circumstances, be called upon to assume the additional and important function of acting as part of the institutional machinery needed for the effective implementation of an international code of conduct on the transfer of technology. They could serve as the continuing machinery for formulating and implementing concrete schemes of co-operation.

68. Moreover, the scope for co-operation among developing countries in specific sectors such as pharmaceuticals,[66] agro-engineering, food processing, fertilizers, pesticides, etc. – all areas in which some developing countries have clearly developed a degree of technological competence – has hardly been explored. Yet the expertise and technological competence of some developing countries in these sectors most closely approximates to the needs and conditions of others. Moreover, blue-prints for the collective sharing by developing countries of their skilled manpower need to be worked out.

### 3. *Action by developed countries*

69. The programme of action by developed countries, essential for assisting the improvement of the scientific and technological infrastructure of developing countries, was spelled out in paragraphs 13, 16, 17 and 18 of Conference resolution 39 (III).[67] This has been supplemented by the decisions of the sixth and seventh special sessions of the General Assembly and during the course of the review and appraisal of the International Development Strategy for the Second United Nations Development Decade.

70. But little appears to have happened since 1972 to implement these provisions. The scope for decisive action is plainly vast.

### 4. *More recent consideration of the issues*

71. The question of strengthening the technological capability of developing countries was more recently taken up at the first session of the Committee on Transfer of Technology (24 November-5 December 1975) and by an Informal Group of Experts on the Establishment of Centres for the Transfer and Development of Technology. Both these meetings marked certain advances in terms of intergovernmental decisions and the exploration of relevant issues. They have an obvious relevance to the adoption of the series of decisions that will be the centre of international attention in the preparatory work for the fourth Conference. They are therefore briefly summarized below.

#### (a) *Committee on Transfer of Technology (first session)*

72. At its first session, the Committee adopted resolution 2 (I) on the "Promotion of the technological capability of developing countries". This resolution gave new directives for various studies aimed at strengthening the technological capacity of developing countries; called for

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[65] See TD/B/C.6/14, annex II.

[66] For details see "Major issues in transfer of technology to developing countries: a case study of the pharmaceutical industry" (TD/B/C.6/4).

[67] See also below, document TD/190/Supp.1, for a fuller discussion.

important initiatives in individual sectors, such as pharmaceuticals, petrochemicals, fertilizers, metallurgical industries and communications; decided upon the main lines of work on the reverse transfer of technology (brain drain), including convening a group of governmental experts to examine studies on this subject and to submit, if possible, recommendations to the Committee on Transfer of Technology at its second session; and requested the Secretary-General of UNCTAD to report to the Conference at its fourth session on the possible ways and means by which UNCTAD could actively participate in the preparatory process of the United Nations Conference on Science and Technology for Development to be held in 1978 or 1979.

73. The decision of the Committee on technical assistance incorporated in part II of the resolution was of considerable significance in advancing work in this important area. It stated, for example:

3. *Requests* the Secretary-General of UNCTAD, in accordance with Conference resolution 39 (III), to continue to provide advice through UNCTAD services to the developing countries in:

(*a*) The preparation of national technology policies and plans and their implementation in co-ordination with other relevant economic policies and plans;

(*b*) The establishment of national institutions in the field of transfer and development of technology;

(*c*) The establishment of transfer and development of technology centres at the subregional and regional levels and of appropriate linkage among them, taking into account the various sectors of particular interest to developing countries;

(*d*) Dealing with technology arrangements, the adaptation of imported technology and the development of indigenous technology;

(*e*) The evaluation of the economic and developmental aspects of technical information, including patents and other forms of industrial property;

(*f*) The establishment of co-ordinated training programmes at the national, subregional, regional and interregional levels, seminars and exchange of personnel in the field of transfer of technology.

...

5. *Further requests* the Secretary-General of UNCTAD, in the light of the decisions of the General Assembly at its thirtieth session, to make concrete proposals for consideration by the Trade and Development Board at its seventh special session for the establishment of appropriate institutional arrangements within UNCTAD, including the possibility of establishing an Advisory Service.

74. Thus the responsibility assigned to UNCTAD in the area of technical and operational assistance has been clearly defined and its scope widened; but it was not possible, at the first session of the Committee, to take the decisions to establish the necessary institutional structures to meet these responsibilities.

### (b) *Informal Group of Experts on the Establishment of Centres for the Transfer and Development of Technology*

75. Questions connected with the institutional structures that will have to be created in order to integrate the policies of transfer and development of technology were examined by an Informal Group of Experts on the Establishment of Centres for the Transfer and Development of Technology. The meeting, for which financial support was provided by the Canadian International Development Agency, was attended by 42 experts from both developed and developing countries and from the secretariats of international organizations in their individual capacities. In their report,[68] the experts emphasize the diversity of country situations and the importance of devising institutional solutions to suit the particular conditions of each country. They also agreed on:

(i) The importance of formulating a unified policy on transfer and development of technology and of establishing national centres, or any other institutional arrangements as appropriate, to implement the unified policy (paras. 5-7);

(ii) The role and the functions of centres, including the principal linkages that need to be established with other bodies in the national administration (paras. 8-14);

(iii) The establishment of subregional, regional and interregional linkages among national centres (para. 15);

(iv) The need to explore sectoral linkages, policies, technologies and other matters in the fields, *inter alia,* of pharmaceuticals, fertilizers, pesticides, agricultural inputs, communications and metallurgical industries (para. 16).

76. The Informal Group of Experts gave preliminary consideration to administrative and financial arrangements for the establishment of national centres, and subregional, regional and interregional linkages (paras. 19-23). It also briefly examined ways of obtaining the assistance necessary for such centres from the developing countries themselves, the developed countries and international organizations (paras. 24-25).

77. The Committee on Transfer of Technology has already defined the large scope of the responsibilities of UNCTAD for technical and operational assistance and the Informal Group of Experts has further elaborated upon these issues, in particular as regards the establishment of centres for the transfer and development of technology. But no progress has been made on taking the decisions which are essential for creating the institutional means, with appropriate resources, which would make it possible to begin to fulfil these responsibilities.

## CHAPTER IV

## *Brief summary of issues for intergovernmental action*

78. This report has underlined the asymmetrical structures governing the relations between developing and developed countries. It has also reviewed the developments over the last quarter of a century, which indicate that only minor changes in these basic relationships have taken place.

79. At the same time, the tasks which will fall to various parts of the international community over the next

[68] TD/B/595.

quarter of a century are indeed formidable. Obviously, it can hardly be expected that these will be attained without far-reaching changes in existing policies at all levels, and without the establishment of appropriate new institutional structures specifically designed to implement the new policies.

80. The issues for the fourth session of the Conference, as described in chapter III, must be viewed against this background. They are briefly summarized below.

### A. Action to strengthen the technological capacity of developing countries

81. Intergovernmental consideration has so far agreed on a number of points. These include formulation of plans and development of policies for integrated transfer and development of technology, and the interlinking of such plans and policies with other parts of the national administrative machinery; concrete ideas have been formed on the types of institutional structures needed, their role and functions, and the interlinkages called for at the subregional, regional and interregional levels; the importance of new initiatives on individual economic sectors, including pharmaceuticals, and on the reverse transfer of technology (brain drain), for instance, have been accepted.

82. Quite clearly, the ideas about what needs to be done have now been translated into concrete areas of action. However, no agreement has been reached concerning the means needed to respond positively to these urgent tasks. This, then, is the gap which needs to be bridged in the process of intergovernmental consideration ahead.

### B. Decisions on a code of conduct for the transfer of technology and, in the light of those decisions, a decision on the modalities for its establishment

83. Draft outlines of a code of conduct have already been submitted by the experts from the Group of 77 and Group B. Group D has indicated its own views on the establishment of the code.

84. Broad intergovernmental agreements have been reached on the main chapters within which the contents of the existing draft outlines will have to be organized. All regional groups have further agreed that these steps will assist governments in the decisions to be reached at the fourth Conference, "including a decision on the legal character of such a code" as called for in section III, para. 3, of General Assembly resolution 3362 (S-VII). Once the Conference has reached a decision on the legal character of the code, it would also be called upon consequentially to decide upon the modalities for the establishment of the code.

### C. Action to be undertaken by UNCTAD with respect to the economic, commercial and development aspects of the international patent system in the context of the on-going revision of that system

85. As described in chapter III, much has happened in the field of the industrial property system since the Conference at its third session in 1972 initiated a review of this question. Major studies have been prepared, examining the adverse impact of the existing industrial property system on developing countries. These have been considered at the intergovernmental level. Progress in this area has passed through various stages, from an examination of the system to its review, and then on to its revision. The process of the revision of the system has in fact already begun. The Conference could note its own contribution in bringing this about.

86. At its first session, the Committee on Transfer of Technology endorsed the agreed conclusions and recommendations of the Intergovernmental Group of Experts. These mark a certain progress in establishing guideposts for the revision process. On the other hand, the conclusions of experts from developing countries on the main lines of the revision of the industrial property system, contained in TD/B/C.6/12, show how much further the process of revision of the system still has to go.

87. The Conference could make a positive contribution by trying to bridge the gap between what is now agreed to by the international community and what is desired by the Group of 77. It could also establish at the same time the broad stages and the modalities through which a satisfactory revision of the industrial property system could be accomplished.

## DOCUMENT TD/190/Supp.1

# Action to strengthen the technological capacity of developing countries: policies and institutions

### *Report by the secretariat of UNCTAD*

[*Original: English*]
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CONTENTS



## *Preface*

The UNCTAD programme in the field of transfer and development of technology is a response to resolution 39 (III) of the United Nations Conference on Trade and Development, which *inter alia* requested the secretariat to "explore the possibility of setting up multilateral institutions such as technology transfer centres" (para. 8 (*b*)). Subsequently, the call for strengthening the technological capacity and infrastructure of the developing countries was repeated by the General Assembly within the framework of its proposals for a New International Economic Order.[1] Express reference to the technology requirements to be met if the developing countries' target of producing 25 per cent of the world's manufacturing output is to be fulfilled was made in the Lima Declaration and Plan of Action.[2] which was endorsed by the General Assembly in section IV, paragraph 1, of its resolution 3362 (S-VII) of 16 September 1975. At its first session, the UNCTAD Committee on Transfer of Technology elaborated in considerable detail the programme to be carried out in these fields.[3]

[1] General Assembly resolution 3202 (S-VI) 1 May 1974. See in particular section IV.

[2] See *Lima Declaration and Plan of Action on Industrial Development and Co-operation,* adopted by the Second General Conference of UNIDO, held at Lima, Peru, from 12 to 26 March 1975 (UNIDO publication PI/38), para. 28.

[3] See resolution 2 (I) of the Committee (*Official Records of the Trade and Development Board, Seventh Special Session, Supplement No. 4* (TD/B/593), annex I).

As part of this programme, the UNCTAD secretariat prepared two progress reports[4] to assist the discussions of the Informal Group of Experts on the Establishment of Centres for the Transfer and Development of Technology, which met at Geneva from 8 to 12 December 1975.[5] In addition, an UNCTAD/UNDP exploratory mission visited 26 countries in the last quarter of 1975.[6] The present document is a synthesis of the two progress reports, supplemented and revised in the light of the findings of both the exploratory mission and the meeting of experts. It supplements a study by the UNCTAD secretariat entitled "Technological dependence: its nature, consequences and policy implications".[7] The last chapter of the present document should be read in conjunction with another document on UNCTAD operational activities in the field of transfer of technology.[8]

In moving from technological dependence towards a stronger technological capability, in turn requiring both comprehensive policies and suitable institutions, a country faces a dilemma, what has been called a conflict between the pragmatists and the realists. To improve living standards, action needs to be taken at once, and hence the pragmatist is tempted to advocate the continued import of technology on whatever terms may be readily available. Unpackaging is a complex business requiring time and skill and involving risks. This is even more true of efforts to develop indigenous technology. The true realist, however, knows that unless and until a start is made in taking control of technology transfer and, at the same time, seriously trying to develop indigenous technology, dependence will persist indefinitely. Yet there is no magic formula or quick solution. There is an inverse relationship between cost and time. Thus there is a need for a consciously planned series of trade-offs through the introduction of a technological component in the development strategy, and the gradual building up of institutions which make this feasible.

At its third session, the Conference laid down the basis for restructuring the legal and juridical environment governing the transfer of technology. Since then, much progress has been made, and the time it now ripe for the adoption of an international code of conduct on the transfer of technology and for the fundamental revision of the industrial property system. A main task of the Conference at its fourth session will be to open up a new dimension, the strengthening of the capacity of developing countries to acquire, use, adapt and generate technologies suitable to their own needs, first and foremost at the national level, and then at subregional, regional and global levels. The purpose of this document is to contribute to the examination of policies and institutions which are required for the strengthening of the technological capabilities of developing countries.

[4] "Establishment of centres for the transfer and development of technology" (TD/B/C.6/9) and *idem.*, working paper No. 3.

[5] The report of the Informal Group of Experts was issued under the symbol TD/B/595.

[6] The report of the exploratory mission was issued under the symbol UNCTAD/TT/3.

[7] Document TD/190, reproduced in the present volume.

[8] "The establishment of appropriate institutional arrangements within UNCTAD, including the possibility of establishing an advisory service in the field of transfer of technology" (TD/B/597) (note by the Secretary-General of UNCTAD prepared in response to paragraph 5, section II, of resolution 2 (I) of the Committee on Transfer of Technology).

## *Summary and conclusions*

### *Policy and institutional gaps in developing countries*

(i) A country's policy in the field of technology should be designed to develop its technological capacity to achieve national, economic and social objectives and to this end to make autonomous decisions in the field of technology. Specifically, the country should be able as a consequence to control the import of technology, increase its capacity to apply technology, progressively redirect the demand for technology from foreign to domestic sources, and promote the creation of local technology.

(ii) There are six main and interlinked areas of policy and institutional arrangements affecting, directly or indirectly, the transfer and development of technology, namely: development strategy; the attitude to foreign investment; contractual and institutional arrangements directly related to the transfer and development of technology; research and development; industrial project preparation; and education and training. There are gaps in some of these areas in most countries, and in the least developed countries there are deficiencies in almost all of them.

(iii) Several of the more advanced developing countries have taken significant steps to improve their bargaining position in negotiations regarding the importation of technology. These are also the countries which have a variety of research and development institutions. Yet the linkages between imported technology and the promotion of indigenous capacity are usually missing, or incomplete. In what is the central area of the process of the transfer and development of technology, for example — the matter of contractual and institutional arrangements — some countries have made an effective start in devising policies and setting up institutions, but they have attacked only part of the whole complex problem.

### *Towards new institutional arrangements for the transfer and development of technology*

(iv) There is thus a need in almost all developing countries to establish or strengthen institutional arrangements; in many cases, what is involved is the setting up of a national centre for the transfer and development of technology, in one form or another. The normal functions of a centre are (in the sequence given):

(*a*) To assist, within the framework of national, social, economic and political constraints, in the identification of the technological needs of a variety of economic activities;

(*b*) To assist in the acquisition and analysis of need-based information about alternative forms of technology from all available sources, domestic and foreign, and in its dissemination among users;

(*c*) To assist in the evaluation and selection of appropriate technologies for the different jobs to be done, with the emphasis on decision-making, this being the critical stage in the whole process;

(*d*) To assist in the unpackaging of imported technology, including the assessment of its suitability, direct and indirect costs and conditions attached;

(*e*) To assist in the negotiation of the best possible terms and conditions for the technology to be imported, including arrangements for the registration, evaluation and approval of agreements for its transfer;

(*f*) To promote and assist in the absorption and adaptation of foreign technology and the generation of indigenous technology, linked specifically to design/engineering, research and development;

(*g*) To promote the diffusion to users of the technology which has been assimilated, whether indigenous or foreign.

(v) There are several possible approaches to the establishment or strengthening of institutional arrangements. A centre might be built up gradually from the beginning, or it might be established by combining and closing the gaps in existing arrangements (variants within this framework would depend mainly on the level of development, the type of strategy, and the relative importance of different kinds of industry and of the rural sector). Alternatively, in certain countries, specific gaps might need to be closed with a view to achieving a better co-ordination of policies and institutions. In each case there will be linkages between the centre, or focal point, and other institutions.

(vi) There are benefits to be derived from subregional, regional and interregional linkages within the framework of the collective self-reliance of developing countries.

(vii) There is also scope for co-operation among developing countries at the sectoral level: for example, in the pharmaceutical industry, through interregional arrangements, there is scope for a considerable redirection of import policies and also for the progressive development of indigenous production.

*Information required and the need for international action*

(viii) There are serious shortcomings in the area of information, both as regards the kind of information available and as regards the channels of dissemination. There is a need for information of the kind required by users themselves and for strengthening linkages between such information and decision-making, in other words, between information systems and the institutional arrangements for the transfer and development of technology. There is a growing response to these deficiencies by the international community.

(ix) The sharing among developing countries of information and experience relating to technologies and suppliers, and the establishment of technology evaluation units, with the object of providing accurate, objective and up-to-date information could considerably strengthen the information available to decision-makers.

*A programme of international co-operation for strengthening the technological capacity of developing countries*

(x) International co-operation and assistance are required for strengthening policies and institutions in the field of the transfer and development of technology, and especially advisory and training services. The financial resources devoted to this purpose will be in the true sense "seed money" with a twofold return: growing savings to developing countries, in that the costs of transferring technology will be reduced; and the progressive adaptation of imported technology, and the development of indigenous technology, reinforced by co-operation among developing countries, with the result that production and incomes in developing countries will increase, to their own benefit and also to that of an expanding world economy.

(xi) There are ever-increasing opportunities for mutual assistance among developing countries, not only through direct co-operation but also financially, for the purpose of increasing their technological capabilities.

(xii) Some developed countries are making voluntary contributions, through "funds-in-trust"; such contributions ought to be increased considerably.

(xiii) International organizations should combine their efforts, each in its own specific field, in assisting developing countries in the transfer and development of technology; the findings of the UNCTAD/UNDP exploratory mission have provided a number of concrete illustrations of such co-operation.

(xiv) As a result of its special competence in the field of transfer of technology UNCTAD clearly has a special function to perform in providing assistance to developing countries in a wide range of activities including the formulation of technology policies and plans, the establishment of appropriate institutional arrangements for the transfer and development of technology, and the training of specialized personnel.

CHAPTER I

## *Policy and institutional gaps in developing countries*

### A. The objectives of policy in the field of technology

1. Most developing countries have become preoccupied with the need for a science policy and for the production of scientific manpower by expanding and reorienting their educational systems. Until recently there has been less emphasis on the need for a technology policy and the production of technologists. The reciprocal links between science and technology are evident. What has been missing has been clarity about and emphasis on the second element. This situation is beginning to change, as can be seen from

General Assembly resolution 3362 (S-VII), which calls for a United Nations Conference on Science and Technology for Development, putting the main emphasis clearly on technology.

2. The over-all objective of technology policy in all developing countries should be to apply technology to the fullest possible extent towards the attainment of national, economic and social development objectives.[9] For this purpose, each country would have to acquire the ability to take autonomous decisions in the field of the transfer of technology.

3. Specific objectives which the developing countries should pursue in this field may be defined briefly as follows:

(*a*) The acquisition of control over the importation of technology through increased bargaining power and acquiring the ability to obtain the best terms and conditions and to link imported technology with the development of local technology;

(*b*) Development of the capacity to apply technology, both imported and indigenous;

(*c*) The promotion of demand for indigenous technology, i.e. the encouragement of a steady shift in demand from foreign to domestic sources;

(*d*) The fostering of ability to evolve technologies directly relevant to development objectives, including not only industrial, agricultural and infrastructural development, but also social and economic goals such as employment, the redistribution of income, improved nutrition and the alleviation of mass poverty, which have received less emphasis in the past.

4. It may be said that no developing country has as yet established a technology policy covering all these objectives.

### B. Existing policy and institutional framework

5. Government policies in many fields, and the institutions responsible for executing them, affect, directly or indirectly, the transfer and development of technology. The most important are discussed briefly below. There are, of course, other areas which could be mentioned, such as the role and policies of development banks, and government procurement policies.

#### 1. *Development strategy*

6. First, a development strategy is required which takes consciously into account the role of technology. The strategy can obviously take various forms, for example, that of giving priority in industrial policy to capital and intermediate goods, with a view to the rapid structural transformation of the economy, based on petrochemicals (in the case of oil producers), other chemicals, metals and engineering; that of placing the emphasis on integrated rural development involving both agriculture and small- and medium-scale industry, not only to improve the living standards of the poorest segment of the population, but also to promote exports; the adoption of other approaches to export promotion, based largely on manufactures; or the continuation of the traditional substitution of local for imported consumer goods. Each of these approaches, or a combination of them, requires a different technological development strategy and gives rise to different kinds of difficulty as regards the acquisition, transformation or domestic provision of the types of technology required.

#### 2. *Attitude to foreign investment*

7. An attitude, and preferably a stable one, has to be adopted with respect to foreign investment. Almost all developing countries admit foreign investors, although with varying degrees of enthusiasm and using different methods, which also reflect variations in the international forms of technology transfer, ranging from direct foreign investment, with the elements of technology as a package, to the case where public sector enterprise attempts to obtain elements of technology from different sources on the best possible terms, with variants of joint-venture organization between these two extremes.[10] For the purpose of attracting foreign investment, most countries have introduced investment laws and regulations, using in the first instance fiscal incentives such as tax holidays, and then tariff concessions ranging from exemption of duties on equipment and materials to sometimes heavy protection, even the outright prohibition of imports, which is tantamount to granting a monopoly. In addition, land is sometimes provided free, and concessional rates are established for utilities, on occasion through the setting up of industrial estates, and capital is made available in the local market on concessional terms. These also usually include some guarantees against nationalization without fair compensation and provision of some kind for the repatriation of profits and of a proportion of the salaries earned by foreign personnel.

#### 3. *Contractual and institutional arrangements*

8. The sequence of actions required in establishing a framework for the development and transfer of technology may be summarized as follows:

(*a*) The identification of technological needs in the light of development objectives;

(*b*) The acquisition of information about alternative sources, including local sources, of the technology required, such as will permit decision-making;

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[9] See Report of the Informal Group of Experts on the Establishment of Centres for the Transfer and Development of Technology (TD/B/595).

[10] See *Guidelines for the study of the transfer of technology to developing countries: A study by the UNCTAD secretariat* (United Nations publication, Sales No. E.72.II.D.19), para. 38. It should be recalled that the technology may be imported as tangible assets, such as equipment, as intangible assets, which may be patents, unpatented but tightly-held know-how or published information, through direct personal contact with specialists, or, finally, "packaged", via foreign investment.

(*c*) The evaluation and selection of the appropriate technology;

(*d*) Analysis of the technology required: since this will normally be a composite of various elements, a "package", large or small, it has to be broken down, or "unpackaged", and the items to be imported and locally supplied, or locally developed, have to be identified. This in turn means the assessment of the costs, direct and indirect, an analysis of the conditions stipulated in the case of imported items, and an estimate of the time span needed. The examination of contractual transfers may be divided into three broad areas: analysis of the main features of these transfers, which are effected mainly through the import of capital and/or technology, and first and foremost, an inquiry to determine whether the technology is appropriate;[11] analysis of the commercial restrictions associated with these transfers, such as the prohibition of exports and other market restrictions, failure to provide research and training, or undue provision for foreign employment; and the costs of transfer. There are direct costs in the form of charges for the use of patents, trade-marks, licences, know-how and also for technical assistance at the successive stages of pre-investment, investment and operations; and there are indirect costs occasioned through overpricing of intermediate products and equipment, charges in the shape of profits on the capitalization of know-how, charges in the form of repatriation of profits and charges arising through imports of equipment, not infrequently the same service being charged for two or three times;

(*e*) Negotiation of the best possible terms and conditions for the technology to be imported;

(*f*) Adaptation and absorption of imported technology and stimulation of the development of local technology;

(*g*) Dissemination of newly acquired technology to users.

### 4. *Research and development*

9. The transfer of technology on better terms and the development of indigenous technology are two sides of the same coin. Hence, the setting up or improvement of institutes of applied industrial research and development, which should also provide engineering services (R and D plus E) is essential, as well as close working relations between these institutes and transfers of technology centres. Indeed, the engineering or design function is the starting point for successful R and D.[12] However successful may be the reforms made in the transfer process, technological dependence will continue until a country can itself meet a substantial proportion of its technology requirements.[13]

### 5. *Industrial project preparation*

10. Industrial projects need some or all of the following:

(*a*) Pre-investment studies (technical and economic feasibility);

(*b*) Choice of technology;

(*c*) Industrial processes;

(*d*) Engineering;

(*e*) Plant construction and installation;

(*f*) Training of technical and managerial personnel;

(*g*) Management and operation of production facilities;

(*h*) Marketing information;

(*i*) Improvement to processes and product designs.[14]

### 6. *Education and training*

11. The capacity to master the complexities of the transfer and development of technology clearly depends fundamentally on the education and training system and particularly on the output of scientists, technologists and middle-grade personnel, since the institutions require substantial qualified personnel. Furthermore, the application of technology throughout the economy – in fact, development itself – requires an education system, interlinked with training arrangements, which provides sufficient skilled manpower at all levels.

12. These, then, are the six major types of activity which have to be undertaken by one means or another if the process of technology transfer and development is to be improved. Needless to say, the ways in which these tasks are to be performed vary from country to country, and inevitably several departments of government, or institutions, are likely to be involved.

13. A quick survey was made of what is being done – or not being done – in a representative cross-section of countries, both geographically, and by level of development, partly through the available documentary material and partly through the UNDP/UNCTAD field mission.[15] There follows a preliminary analysis of the situation at the country level, classified by the six types of policy and institutional arrangements which have been described. The analysis should be regarded simply as illustrative.

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[11] Patents and trade-marks are not considered here: see *The role of the patent system in the transfer of technology to developing countries* (United Nations publication, Sales No. E.75.II.D.6), and documents TD/B/C.6/AC.2/2-4.

[12] V.V. Bhatt, in discussing what he terms Technical Consultancy Service Centres, subtitles section III of his paper "On the primacy of the design-engineering function" (see "On Technology Policy and its Institutional Frame", *World Development* (Oxford), vol. 3, No. 9 (September 1975), pp. 651 *et seq.)*.

[13] P. Streeten distinguishes two technological gaps which he calls the communications gap, i.e. the transfer problem, and the suitability gap, i.e. the absence of appropriate technologies, and suggests there is a danger that by closing the first gap, the second may be opened. ("Technology gaps between rich and poor countries", *Scottish Journal of Political Economy*, (Edinburgh), vol. XIX, No. 3 (November 1972), p. 213).

[14] United Nations, *Guidelines ..., (op. cit.)*, para. 20.

[15] The report of the UNCTAD/UNDP exploratory mission on transfer of technology to developing countries (UNCTAD/TT/3) contains much information about the present position at the country level.

(i) *Development strategy*

14. Within the context of the transfer and development of technology, there are four facets of development strategy to be considered: industrial policy, e.g. whether there is special emphasis on intermediate and capital goods with a view to the structural transformation of the economy; a dynamic policy towards the modernization of the rural sector affecting both agriculture and industry; a changing emphasis on promoting exports rather than import substitution; and effective national planning machinery.

15. An emphasis on intermediate and capital goods, necessarily involving the transfer and development of much advanced technology, is found in the larger countries of Latin America and Asia and parts of North Africa.

16. Dynamic policies with regard to the rural sector, implying the transfer of more traditional technologies, and still more their adaptation and the development of indigenous technology, appear to be evolving mainly in a few countries in Asia and Africa. Some countries – mostly in Asia and Latin America – have deliberately turned or are beginning to turn to a more export-oriented strategy, as distinct from one which has been concentrating on promoting the substitution of local for imported consumer goods. The need for foreign partners both in the acquisition of technology and in marketing is greater where this approach is employed.

17. Most developing countries have introduced development planning and established planning ministries. Relatively few have as yet been able to establish effective machinery for the execution of their development plans.

(ii) *Attitude to foreign investment*

18. Apart from those countries which have opted for a fully socialist system, most developing countries welcome foreign investment, although some of them with increasing reservations. However, more countries are moving either to the stage of joint ventures, with the foreign holding decreasing and gradually being phased out, or to the formation of public sector enterprises which import technology from several sources. Countries in the former category include several in Latin America, and those in the latter Algeria and India. There are, of course, elements of both these approaches in each group of countries. Yet, the majority of developing countries, whether or not they put much emphasis on planning – even in theory, and whether or not theirs is a socialist form of organization of one kind or another – have no clearly defined attitude to foreign investment: they have not determined how to maximize the benefits to the country at the present time, nor have they decided on the evolution of the role of foreign investment in the future.[16]

19. It follows from the last point that foreign investment laws and incentives are generally indiscriminate, over-generous and rarely worked out in relation to development policy objectives. Indeed, not infrequently, they are arbitrary, reflecting simply the opinion of the minister responsible that the investment would further the economic development of the country. The position seems to be worst in Africa, where it is exacerbated by competition among African governments as to which of them can offer the investor the most attractive terms.[17] An exception is the Common Convention on Investments in the States of the Customs and Economic Union of Central Africa,[18] which provides, *inter alia,* for the harmonization of investment legislation and incentives, and a partial exception is the Treaty of the East African Community, the parties to which are Kenya, United Republic of Tanzania and Uganda, and that it contemplates some degree of harmonization of investment laws and incentives. Most countries in Latin America offer generous incentives to foreign investment, but there is some degree of harmonization amongst the Central American countries. The Andean Pact[19] countries have gone some way towards harmonizing foreign investment criteria, e.g. rules concerning the transfer of advanced technology, diversification of exports and willingness to invest in poor areas; in addition, they favour joint ventures and the fade-out principle. A number of Asian countries have also offered generous incentives to foreign investors. A few countries have made serious efforts to rationalize and limit the incentives offered.

(iii) *Contractual and institutional arrangements*

20. Some of the more industrialized among the developing countries have begun to examine part of the wide range of questions implicit in this topic in a little more detail. The process has been particularly marked in Latin America, where some of the Andean Pact countries, Argentina, Brazil and Mexico, have initiated measures affecting importation of technology, and corresponding procedures have been introduced in some other countries, including India.

21. The focus of the measures taken has been the foreign investment, technology, capital and distribution package. With a view to breaking down this package into its constituent parts and so allowing concentration on each of the components involved, the policies have highlighted the following areas: alterations in foreign investment laws; changes in industrial property legislation; establishment of institutions which can accomplish screening and/or evaluation functions; and procedures for analysing the more serious forms of loss arising through the importation of technology controlled by transnational enterprises (transfer pricing has been a major source of concern in this respect).

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16 See ECA, "The appraisal of proposals for foreign participation in manufacturing industry in Africa", by D. J. C. Forsyth (CMI.2/INR/TP/16 of 28 September 1973).

17 See ECA, "Problems of the harmonization of African investment laws" (CMI.2/INR/TP/13/Rev.1, of 18 September 1973), p. 2.

18 Signed at Yaoundé, Cameroon, on 14 December 1975 by the Central African Republic, Chad, the Congo, Gabon and the United Republic of Cameroon.

19 The Cartagena Agreement, a subregional integration agreement signed on 26 May 1969 by Bolivia, Chile, Colombia, Ecuador and Peru, which were later joined by Venezuela.

22. A brief look at the particular procedures chosen in each case may help to put the over-all situation in better perspective. In 1970 Brazil established the National Institute of Industrial Property, whose purpose was to deal with the great variety of issues arising from the import of technology.[20] That institutional step, whilst it did not specifically create either legislation or institutions dealing with the transfer of technology as such, nevertheless provided a general framework within which to deal with the subjects involved.

23. The Commission of the Cartagena Agreement, through its Decision No. 24 of 1970, created a common regime for foreign capital movement, trade marks, patents, licensing agreements and royalties. This Decision established norms to be followed by each member country, but did not determine the institutional framework that member countries were to adopt. In practice the main device used by member countries seems to have been that of royalties committees which have tried to reduce the more obvious excess charges for technology.[21] Two member countries, Colombia and Peru, have altered their industrial property legislation and there have been some legal and administrative changes pertaining to the evaluation of foreign investment.

24. When, at the beginning of 1973, the Mexican Registry on the Transfer of Technology[22] began operations, a somewhat different institutional structure was chosen but nevertheless one which covered the screening and evaluation elements of the importation process. In the Mexican case, the focus was on the registration of all contracts, the elimination of a whole series of restrictive clauses in those contracts, and the notion of establishing administrative guidelines which would serve to ensure that the technology imported actually made a positive contribution to the national economy. The Mexican procedure of creating a register for the transfer of technology is in essence the same as that adopted by Argentina[23] and Spain.[24]

25. India has *de facto* operated administrative procedures of a similar kind for several years although there has not been an explicit creation of a registry of transfer of technology or similar institutions. The Indian legal and administrative processes have tended to be ample in their coverage – though perhaps not well co-ordinated – and to place stringent limitations on the ways in which the foreign investment/technology package can be employed in the country. Perhaps three particular elements of the Indian structure are worth emphasizing.[25] First, the Patents Act of 1970, which represented a sharper delimitation of the conditions for registering and using patents: this law is particularly important since it comes from a major developing country not a member of the Paris Convention for the Protection of Industrial Property. Secondly, the 1969 guidelines on policies and procedures concerning foreign collaboration agreements, which adopted a selective approach to technology imports (the role here of the Indian Ministry of Science and Technology is crucial), served to clarify the situation regarding the proportions of a company's equity capital permitted to be held by foreigners, the maximum rate of royalties permitted in collaboration agreements, a statement of certain clauses, especially export restriction clauses, which would not be allowed, and some statements regarding the speed with which administrative decisions on these matters would be made. Thirdly, the 1973 guidelines for administering section 29 of the Foreign Exchange Regulation Act specified in far greater detail what would and what would not be permitted for companies in India in which the foreign holding exceeded 40 per cent. The emphasis was on the fact that, if there had previously been a foreign holding in excess of 40 per cent in such enterprises, this proportion should be brought down to the 40 per cent level within a specified period, and that foreign holdings should contribute to research and development. An important new element in the 1973 measures was the reference to consultancy work. Approved or registered Indian engineering design and consultancy organizations must be the prime consultants, and the Government will consider allowing purchase of only such design and consultancy services from abroad as are not available within the country. In other words, the Indian Government was addressing itself to one of the critical aspects in building up domestic technological capabilities, namely, control over the technical and engineering design work which is the basis of so many industrial and agricultural projects. This preoccupation of the Government of India has so far not been echoed significantly in the legislation of other developing countries.

26. Thus, it can be seen that several of the more advanced developing countries have taken significant steps to improve their bargaining positions in the importing of technology. These are also the countries which have a variety of research and development institutions. Yet the linkages between imported technology and the promotion of indigenous capability are usually missing, or ineffective. Contractual and licensing arrangements normally provide that information supplied concerning technology and design should be restricted to the two parties to the contract and exclude interaction with the research and

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[20] Law No. 5648 of 11 December 1970 establishing the National Institute of Industrial Property.

[21] For a detailed description see "Policies relating to technology of the countries of the Andean Pact: their foundations (A study by the Board of the Cartagena Agreement)" (TD/107), 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), p. 122.

[22] Created by the Law of 28 December 1972 concerning registration of the transfer of technology and the use and working of patents, trade-names and trade-marks.

[23] See Law 19231 of 1971 and Law 20794 of 28 October 1974 on Transfer of Technology.

[24] Decree 2343 of 21 September 1974 regulating the transfer of technology.

[25] Relevant sections of the three texts referred to in this paragraph are reproduced in "Selected principal provisions in national laws, regulations and policy guidelines; regional regulations and other material relevant to the preparation of a draft outline of a code of conduct on transfer of technology, compiled by the UNCTAD secretariat" (TD/B/C.6/AC.1/2/Supp.1/Add.1).

development institutions. Thus, in the central area of the process of the transfer and development of technology – contractual and institutional arrangements – some countries have made an effective start but have attacked only part of the whole complex problem.

(iv) *Research and development*

27. The World Association of Industrial and Technological Research Organizations (WAITRO) lists as its members institutes in the following countries and territories (number indicated in brackets): Algeria, Argentina (2), Bolivia, Brazil (4), Chile (2), Colombia, Ecuador (2), Egypt, Ghana (3), Guatemala, Haiti, Hong Kong, India (3), Indonesia, Iran (2), Iraq, Jamaica, Kenya-Tanzania-Uganda, Kuwait, Lebanon, Liberia, Libyan Arab Republic, Malaysia, Mexico (2), Nigeria, Pakistan, Philippines (2), Republic of Korea, Republic of South Viet-Nam, Singapore, Spain, Sri Lanka, Sudan, Thailand, Togo, Trinidad and Tobago, Venezuela (3), Yugoslavia and Zaire.[26] Some of the institutes are national councils or research institutes with wide-ranging activities; some specialize in research into, for example, building, forest products, the electrical industry, the engineering industry and the textile industry. Research and development activities in developing countries are still on a tiny scale. Only 2 per cent of total R and D in the world is carried out in these countries and it has been suggested that much of this is misdirected – "the internal brain drain".[27] Furthermore, much of the 2 per cent is inevitably carried out in the more advanced of the developing countries.

28. Most of the R and D institutes referred to are not directly involved in design and engineering. In this context, it is useful to refer to a study of some 20 projects carried out by four Latin American institutes which wished to examine the use made of the results obtained in order to determine whether these projects had been stimulated by the market or in response to a clearly felt need, compared with those projects initiated *a priori* or from the "supply" side. It was found that projects of the former kind were much more successful. The same study showed that relatively little benefit was obtained in technology transfer and adaptation from the literature or from information centres. Usually the most effective persons in the institutes were those who had been abroad long enough to obtain genuine first-hand knowledge, and who returned and adapted it to their countries' own needs.[28] Apart from the need greatly to expand the resources devoted to design/engineering, research and development in the developing countries, a good deal more could be done by similar institutes in the developed countries to carry out research useful to the developing countries.

29. A number of countries are making a considerable effort to promote quality control and standardization. Particular mention should be made of the Institute of Metrology in Brazil, which is being expanded to include standardization functions within a network of regional offices. There are similar bodies in other Latin American countries and also in Algeria. Some may develop into research and development institutes. Effective national standardization measures can set the pace for the import of technologies which are genuinely appropriate to the country and promote the development of indigenous technology according to national specifications.

(v) *Industrial project preparation*

30. The selection and appraisal of projects is intimately bound up with and dependent upon the selection of technology and its transfer and development. It may or may not be appropriate institutionally to carry out simultaneously the relevant activities both in the selection and appraisal of projects and in the selection of technology. But, even apart from the technology aspect, it is apparent that a major weakness in most developing countries is their incapacity to prepare and/or appraise projects. Examples of relatively effective institutions for these purposes are few. Among them are the Algerian National Institute of Productivity and Industrial Development; several Egyptian R and D institutes; the Industrial Studies and Development Centre in the United Republic of Tanzania; the Development Management staff attached to the Office of the President in the Philippines, and the Latin American multinational arrangements in some countries referred to in section (iii) above.

(vi) *Education and training*

31. Many developing countries in the years following independence made remarkable efforts to expand education. But there was a general tendendy to give priority to the target of universal primary education and also to maintain, with little change, systems inherited from former times where at each rung of the educational ladder the principal objective was to prepare for the next one. Finally, at the tertiary stage, humanities and law tended to be favoured at the expense of science and technology. One consequence was that expenditure rose faster than gross domestic product. Another was the failure to produce sufficient skilled manpower for the development process. A third was that the vast majority of the population, who were destined never to get further than the primary sector, and often only part of the way through that, received education with little relevance to their future activity, which was inevitably in the rural sector. In recent years, radically new approaches to the whole education system are being evolved and beginning to be put into practice. The education system and the level of education in Latin America, most of North Africa and India is more advanced than in the rest of the developing countries, although even in most of those countries there is still more to be done to shift the bias from the humanities towards science and technology. In other countries, although great progress has been made in the last two decades in quantitative terms,

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[26] WAITRO, *Directory*, 3rd. ed. (Vancouver, B.C., 1974), publication No. 8. WAITRO works towards linking centres in the advanced and the developing countries and, by this means, the former are carrying out specific research projects for the latter.

[27] P. Streeten, *loc. cit.*, p. 224.

[28] J. M. Utterback, "The role of applied research institutes in the transfer of technology in Latin America", in *World Development* (Oxford), vol. 3, No. 9 (September 1975), pp. 665 *et seq.*

there remains the major problem of changing the whole content of education, from the reorientation of primary education in the rural sector, to more emphasis on appropriate kinds of secondary education and on both expansion and orientation of tertiary education for development needs, as well as developing training programmes linked with each rung of the educational ladder. In recent years, there has been a greater awareness of this problem both at the government level and at that of the international organizations. The crucial need for such a change in the direction of education and training policies so far as the transfer and development of technology are concerned can hardly be overstressed.

32. What is needed, as is being realized in some countries, is a deliberate link between institutions concerned with technology and the education and training sector in the planning or curricula; the curricula should also provide for periods of practical training within industry.

CHAPTER II

## *Towards new institutional arrangements for the transfer and development of technology*

### A. Possible types of national centres: their role, functions and internal linkages

33. The brief analysis in this document, based on empirical data from a variety of sources, amply demonstrates the need to establish or strengthen institutional arrangements for the transfer and development of technology in almost all developing countries. It is the recognition of this need by the governments of many developing countries which has led to the widespread expression of a demand for the setting up of centres, not only in resolutions but also, for example, in the comments made by many governments to the UNCTAD/UNDP exploratory mission. However, the term "centre" should be regarded as a convenient symbol for whatever kind of institutional arrangement a particular country finds suitable to carry out its central role in the transfer and development of technology. It by no means implies necessarily the physical centralization of the personnel responsible for the sequence of activities required for the effective transfer and development of technology. Moreover, although the basic policies required are the same, there is a variety of possible institutional approaches to devising them and carrying them out. Seven possible hypothetical situations, classified according to seven types of country, are described briefly below.

34. The *first* is a large country with a mainly open economy, high on the developing scale, which already has many of the policies and institutions relevant, directly or indirectly, to the transfer and development of technology. The *second* is a medium-sized country, well up on the development scale, placing considerable emphasis on planning and the State sector and on developing effective policies in the rural sector, which already has a fair number of the policies and institutions. The *third* is a medium-sized country, rising on the development scale, with planning and a large State sector which is aiming at a rapid restructuring of its economy through heavy industry, has most of the policies and institutions affecting indirectly the transfer and development of technology but suffers from serious gaps in the transfer process itself. The *fourth* is a medium-sized country in the middle of the development scale, with an open economy which has relied hitherto on import substitution of consumer goods and is now trying to switch to more export-oriented industrialization, with an emphasis on employment and the rural sector. It has some of the required institutions but not yet many of the policies, particularly in the central area of transfer and development of technology. The *fifth* is a country with a mining economy and a fairly high GDP but otherwise low on the development scale. It lacks most of the policies and institutions, especially those concerned with the transfer and development of technology. The *sixth* is a poor country but with planning, following a dynamic approach and concentrating its strategy on the rural sector and the redistribution of incomes. It has some of the policies and institutions but virtually nothing in the area of transfer and development of technology. The *seventh* is a least developed country, predominantly agricultural, with virtually none of the policies and institutions and also lacking almost all the required personnel. A possible institutional framework for the transfer and development of technology for each of these countries is suggested below, together with the principal links which the institution chosen should establish with others concerned, directly or indirectly, with the transfer and development process. Although the seven cases described are hypothetical, they reflect the broad features of real situations.

35. Since the essential functions to be performed by transfer of technology centres or equivalent institutions are identical in all cases, the list is not repeated for each case. These functions, which must be performed by one means or another, are as follows:

(*a*) To assist, within the framework of national, social, economic and political constraints, in the identification of technological needs for a variety of economic activities;

(*b*) To assist in the acquisition and analysis of need-based information on alternative sources of technology from all available sources, domestic and foreign, and its delivery to users;

(*c*) To assist in the evaluation and selection of appropriate technologies for the different jobs to be done, with the emphasis on decision-making, this being the most critical stage in the whole process;

(*d*) To assist in the "unpackaging" of imported technology, including assessment of its suitability, the direct and indirect costs and the conditions attached;

(*e*) To assist in the negotiation of the best possible terms and conditions for the technology to be imported, including arrangements for registration, evaluation and approval of agreements for its transfer;

(*f*) To improve and assist absorption and adaptation of foreign technology and generation of indigenous technology, linked specifically to design/engineering, research and development;

(*g*) To promote the diffusion among users of technology already assimilated, whether indigenous or foreign.[29]

The centres should have a double impact: at the macro-level in formulating or advising on technology policies and assisting in the preparation of a technological plan; and at the micro-level on the productive system and the enterprise itself, whether in the public or in the private sector. The entrepreneur has himself to perform the same series of functions described above. The centres should play a major part in setting and implementing the new "rules of the game" now emerging in the transfer process, as set out in the revised draft put forward by the Group of 77 for an international code of conduct on the transfer of technology.[30]

36. It should hardly be necessary to point out that the building up of centres is bound to be, in all but a handful of countries which are already well versed in the problems of technology transfer and have already the elements of policies and institutions, a gradual process, selective, and based on well-defined priorities.

37. In the least developed countries, the first step might be the establishment of arrangements for the registration of contracts relating to the transfer of technology, and a training programme to familiarize those concerned with the elements of the whole process. The next step would be learning to analyse and "unpackage" contracts, and the acquisition of negotiating skills. The technologies to be selected should be strictly related to the immediate priorities of the country's economic development. The same step-by-step approach would be applicable to the evaluation process; manifestly it would be both impossible and quite inappropriate to try to keep all kinds of specialists on the permanent staff of a centre, and there should be recourse to the services of short-term consultants from wherever available within the country. At a later stage, the centre may decide to decentralize its activities to different parts of the country and also begin to promote arrangements for specialization in particular sectors of the economy.

38. *Case 1:* The country is a relatively large one, high up on the development scale. Its development strategy has been essentially that of a relatively open economy but with a definite trend towards a more mixed economy; it is concerned to reduce external economic dependence, as well as to promote increasing national control of economic activities. Although the country is already semi-industrialized, 40 per cent of the population is still rural and dependent on agriculture. The government is continuing its efforts to transform the structure of the economy both through further industrialization and also by giving special attention to the agricultural sector.

39. Foreign investment has been welcomed, but with increasing reservations. It is now regarded as a complement to domestic investment. Foreign equity and foreign management control must be less than 50 per cent, and a considerable range of economic activity is closed to foreign enterprise. Foreign investment is closely scrutinized, and is regulated by a ministerial committee.

40. The transfer of technology is governed by comprehensive legislation, registration is mandatory and virtually all aspects of technology are subject to scrutiny. On the other hand, there do not yet appear to be in practice measures which effectively influence decision-making in the transfer process or the prospective indigenous development of technology. There are extensive arrangements in the field of research and development, but they are not yet effectively linked with the absorption and adaptation of foreign technology.

41. There is provision for the evaluation of industrial projects. The country's education system is relatively advanced, although not yet sufficiently oriented to the production of technologists.

42. There is a clear awareness of the significance of the technological factor and its implications for the accelerated industrialization programme in progress; and most of the machinery required in the process of transferring and developing technology exists. Essentially what is needed is action to close some of the gaps and to ensure a more effective co-ordination of already existing policies and institutions. Building upon present arrangements, and placed at some strategic point in the governmental machinery, it would appear appropriate to establish a central point from which to gain an over-all view of the transfer and development of technology.

43. *Case 2:* This refers to a country of medium size, relatively well placed on the development scale and partly industrialized. Recently its development strategy has been that of a mixed economy, with an increasing governmental intervention in the restructuring of the economy and in the operation, development and financing of industry; major emphasis is given to the advancement of the rural sector and to the management of the country's important mining and fishing resources.

44. Government policy regarding foreign investment recognizes a category of "strategic" industries where State ownership of at least 30 per cent of the equity is mandatory; it also favours joint ventures with a 51 per cent national participation.

45. A distinguishing feature of his country's arrangements for the transfer and development of technology is the recent establishment of an institute concerned with both science and technology, which has recognized clearly the difference between science policy and technology policy and has been able to elaborate the latter in some detail. The institute has been given responsibilities in the field of industrial property and the negotiation of licensing agreements. Its functions in providing information and extension services have also been expanded.

46. Arrangements for carrying out a research and development policy are more advanced than in most developing countries. The institute referred to is in a

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[29] See TD/B/595, para. 10.

[30] See TD/B/C.6/1, annex III.

position to carry out its own research, to subcontract projects to other organizations, or to subsidize research conducted by enterprises. Funds are provided by requiring every industrial enterprise to put aside 2 per cent of its net income before tax for technological research. These funds may be used by the enterprise if the project in question is approved by the institute, or the enterprise may itself subcontract the work to another body, or again, the funds may be used directly by the institute. It has design and engineering personnel and also engages in training. It is responsible for standardization and quality control. It provides technical assistance to small and medium-sized enterprises. It is also decentralizing its activities throughout the country. It concentrates on the adaptation and diffusion of foreign technology and on the development of indigenous technology. There are arrangements for the preparation and evaluation of industrial projects.

47. The country's education and training system ranks high on the government's order of priorities. However, progress in reforming the system and in producing the technologists required for the country's economic expansion is slow.

48. This country has already, therefore, the nucleus for the further action necessary in the field of the transfer and development of technology. So far the main emphasis has been on research. Until recently, the importation of technology did not contribute effectively either to the development of indigenous technological capability or to the formation of an autonomous capacity for decision-making. Now the institute is intervening actively in the process of importing technology and linking it with the production of technology. Thus the decentralized centres will progressively be in a position to evaluate technologies, disaggregate the package and decide what kinds of technology should be imported.

49. The institute does not yet seem to have quite the strategic position in the hierarchy of government that is needed, or the linkages with other interested bodies necessary to better co-ordination. The present funding arrangements are still largely biased in favour of large-scale urban enterprises and hence are not as conducive as they could be to the unpackaging of imported technologies or to the development of appropriate indigenous technologies.

50. The institute is already playing a major part as a training body for researchers and will no doubt proceed to train the personnel who will be responsible for the transfer process, such as negotiators.

51. *Case 3:* This is a country where the main objective of the development strategy is to transform the structure of the economy rapidly by giving priority to industrialization based on intermediate and capital goods – metals, heavy engineering and chemicals. Most industry is in the State sector but foreign investment, largely through joint ventures, is encouraged, mainly as a source of the advanced technology which is required; from the outset there is emphasis on the training of local personnel. There is an office responsible for patents, trade-marks and industrial standardization, which scrutinizes foreign contracts for the import of technology, mainly from the standpoint of costs and the saving of foreign exchange. As yet, none of the other activities relating to the transfer and development of technology are being undertaken. There is an institute which provides consulting services to industry and which promotes industrial research. However, research and development activities are on a sporadic basis and need systematization and strengthening. Industrial projects are prepared by the same institution, which is also training consulting engineers to appraise projects, most of which are at present submitted from abroad. Substantial resources are devoted to education and training. The whole educational system is in the course of being restructured, and there is marked emphasis on technological education.

52. The country would seem, therefore, to need a centre for the transfer and development of technology and, apparently, one possible course would be to extend the functions of the office engaged in reviewing imports of technology. It would seem appropriate that the centre should be so located that it would have direct access to the Ministry of Planning and be given co-ordinating functions covering the whole field. The centre should establish close links with research and development arrangements and should be the principal agency responsible for the adaptation of technology acquired and the development of indigenous technology. The centre should also establish close links with the organization responsible for the preparation of industrial projects.

53. Given the level of education in the country, it should be possible to staff the centre fairly quickly with personnel covering the whole range of its functions. Training would be required in order to improve skills in this particular area, and this training could be undertaken quite rapidly.

54. *Case 4:* This refers to a large country, well endowed with natural resources, whose development strategy has hitherto stressed the substitution of imports of consumer goods, some of them in the luxury category. A policy switch is being worked out with the object of expanding employment, food production for the domestic market and more labour intensive industrialization aimed particularly at the export market, within the framework of an open economy, with planning of an indicative character. Foreign investment will continue to be strongly encouraged, but with more selective incentives. There is an Investment Board which approves all applications for the establishment of undertakings with 30 per cent or more foreign equity; joint ventures are favoured. So far as contractual arrangements for the transfer of technology are concerned, new contracts require a licence and may not run for more than five years. Royalties in respect of the transfer of technology and trade-marks are limited, and export restrictions are forbidden. There are no other arrangements in the field of the transfer and development of technology.

55. There is a wide range of research centres dealing with both agriculture and industry but concerned mainly with standards, performance testing, dissemination of the results of research, industrial application of these results and training. There is a centrally placed, technically

qualified staff responsible for the preparation, evaluation and implantation of projects. The education system has produced a high rate of literacy and increasing numbers of university-trained technologists. There is a widespread shortage of middle-level manpower.

56. Although some of the arrangements for the transfer and development of technology are lacking, a start has been made in others. The most promising approach towards the strengthening of these arrangements would appear to be to build on the staff already responsible for project preparation, which is also part of the planning staff and closely linked with the authorities responsible for approving investment. What is missing is a link with the research and development network and a link with the education authorities.

57. Building on the existing staff, as suggested, it should be possible fairly quickly to designate others with technical backgrounds and train them fairly rapidly.

58. *Case 5:* This refers to a small country with a mining economy and therefore, measured by GDP, fairly high on the development scale. However, mining accounts for two-fifths of GDP and for 95 per cent of exports, with the consequence that GDP, foreign exchange availability and government revenue are all affected by the marked fluctuations in the prices of the commodities produced. Half of the population lives in the areas directly or indirectly involved in mining or in the small modern sector, and the rest are engaged in small-scale low-productivity agriculture or related activities. The economy is a mixed one with a growing State sector. The object of the development strategy, apart from increasing production rapidly in the mining sector, is to close the gap between the rural and the modern sector by diversifying both agriculture and industry, and in particular by raising the efficiency of the former.

59. Although most of the expansion of manufacturing is expected to come from the private sector, there is no investment code, and foreign investment has recently been limited. Mining, on the other hand, is operated under a management contract with liberal incentives and wide freedom in the decision-making process for those operating it.

60. There are no arrangements for the transfer and development of technology and very little in the way of research and development.

61. The preparation of industrial projects is inadequate. The Planning Office which, with substantial external assistance, prepared the national development plan, of an indicative character, found that there was a dearth of well-prepared and viable projects, partly owing to its own shortage of appropriate experience and partly owing to the weakness of some of the sectoral Ministries.

62. Despite great efforts made since independence, education and training are still insufficient. Greater emphasis is now being given to vocational, professional and technical education and training; increased emphasis is being placed on preparation for rural occupations.

63. There is, therefore, a strong case for establishing a centre for the transfer and development of technology. But two other sectors are in urgent need of strengthening – research and development, and industrial project preparation – and with each of these the centre should have close links. It would seem appropriate that the centre should be located in or have a direct link with the Planning Office. At this stage, it would seem unlikely that the centre could have much impact on the mining sector. Preferably, it ought probably to concentrate on the manufacturing sector and on the rural sector both with a view to improving the terms on which technology is transferred and to developing indigenous technologies, including agro-based industries. The first step would be a substantial training programme.

64. *Case 6:* This is a country where the development strategy places the main emphasis on the rural sector, both agriculture and agro-based industry, not only in order to raise the living standard of the population, but also in order to increase exports, through the diversification of agricultural products and the further processing of raw materials. Much greater equality of incomes is being achieved. Although there is an important State sector, small-scale private enterprise still predominates, and foreign investment is encouraged with liberal incentives. There are no arrangements for the transfer and development of technology. Most industries of any importance are established on a turnkey basis, the imports of equipment being installed under the supervision of foreign consultants and expatriate key personnel being employed. In relation to the resources of the country, there is a considerable programme of research, particularly in agriculture and construction, including extension services. There is a centre for the preparation of industrial projects which carries out feasibility studies in a fairly wide range of industries based on local resources. Universal primary education is expected to be attained in the near future, and the system is being restructured toward functional rural education. Recently, considerable emphasis has been given to scientific and technical education, including the training of technicians.

65. There would seem to be a clear case for the establishment of a centre which would be responsible for the transfer and development of technology and have links with research and development arrangements, which themselves could also be improved. A more effective policy with regard to foreign investment is also needed, and close links should be established between the centre and the authorities responsible for investment policy. It would seem appropriate to locate the centre close to the Ministry of Planning, reporting directly to the Minister, and it might be suitable to set it up by transforming the organization responsible for industrial project preparation, which is an effective one.

66. The growing output of technologists and technicians in both the industrial and rural sectors should make it possible to assign suitable, or potentially suitable, staff to the centre fairly quickly, but the staff would need to be trained in the specific areas of technology transfer, particularly in the evaluation process, in the unpackaging and

negotiating process and in the innovation and design of research and development projects.

67. *Case 7:* This refers to a large, thinly populated, least developed country without as yet an effective development strategy, predominantly agricultural but endeavouring to promote import substitution in industry and the diversification of exports. There is heavy dependence on foreign investment and aid. Although there is a liberal policy with regard to foreign investment, it has not so far proved very effective in attracting investors. Four-fifths of the industrial sector are in private hands, mainly concerned with small-scale processing of local raw materials. There are virtually no arrangements for the transfer and development of technology, and such institutional arrangements as are available, at least potentially, are spread over several departments, including these of planning and industry, an industrial development bank and an inter-departmental investment committee. There are virtually no arrangements for research and development or for the preparation and evaluation of projects. Most of the population (85 per cent) is illiterate, and virtually no technologists are produced by the educational system.

68. Although there is a clear need for a centre dealing with the transfer and development of technology, neither the availability of personnel, nor the inexperienced and unco-ordinated system of Government is propitious, and there is obviously no ready-made solution. Clearly the first step should be to create machinery that would at least register and begin to scrutinize and evaluate arrangements for technology transfer and also to make a start on research and development for the rural sector, including both agro-industry and small-scale industry. A prerequisite for any useful activity would be a comprehensive training programme.

69. The seven hypothetical situations described above may be broadly grouped in several categories: either the centre may be built up from the beginning, or it may be established by combining (and closing the gaps in) existing arrangements (variants within this framework would depend mainly on the level of development, the type of strategy and the relative importance of different kinds of industry and of the rural sector) or, alternatively, in certain countries, specific gaps may need to be closed with a view to achieving better co-ordination of policies and institutions.[31] If these approaches are applied to the above examples:

Case 1 has most of the requisite policies and institutional machinery: there are some gaps to be filled and better co-ordination is needed.

Case 2 already has the requisite policies and institutions, and is decentralizing its machinery responsible for transfer, research and development of technology, although activities in the transfer field are in their early stages. The lending institution, if it is to play the central role in the transfer and development of technology, does not seem to have quite the place it should have in the government structure; there is also a lack of co-ordination of the relevant government activities.

Case 3 needs a centre, which could probably be established quite rapidly by building from existing institutions. The centre would have to be competent in advanced technology.

Case 4 is similar to case 3 but the development strategy is different and the principal need is to transfer and develop technologies for small and medium-scale industries and the rural sector.

Case 5 needs a centre starting almost from scratch which should concentrate initially on agro-industry and small-scale industry. Furthermore, there are considerable gaps in areas of policies and institutions other than those directly concerned in the transfer and development of technology.

Case 6 needs a centre which might be built up from an existing related institution; the policy already emphasizes the rural sector, and consequently the technologies imported and to be developed at this stage are particularly those required in agriculture and agro-industries.

Case 7 has to start entirely from zero since not only are there no arrangements for the transfer and development of technology but there are deficiencies throughout the whole range of relevant policies and institutions. A centre is required and will have to be built up gradually; the first step must be the training of a nucleus of staff.

70. Actually, basic training or in-depth training is required in almost every case. In the first two cases, the countries concerned are largely able to carry out and are in fact carrying out training activities themselves. In the others, the training needed is on a considerable or large scale, with differing emphasis according to the situation; extensive assistance is needed.

### B. Administrative arrangements for national centres

71. It will take a considerable time, as a rule, to build up a centre for the transfer and development of technology. Meanwhile a start has to be made. The number of staff ultimately required for a really effective, comprehensive centre may well be quite large. The numbers depend partly, of course, on the country's size and level of development, particularly so far as industry is concerned, which inevitably for a long time to come will need imported technology, and partly, in the initial stages, on the number of suitably qualified, or potentially qualified, personnel. The categories of staff would include engineers and economists able to identify, seek out and evaluate technologies within the range of economic activities being undertaken by the government; those with a training in law – especially the law relating to industrial property – in commerce, accountancy, economics and statistics, and hence capable of "unpackaging" the imported technology, reviewing contracts and where necessary negotiating or

[31] See TD/B/595, para. 12.

renegotiating them; design engineers with experience of research and development and hence capable of promoting the adaptation of acquired technology and initiating the development of indigenous technology; and specialists able to collect the information required or requested by the users as well as to assist users in the first stage of the process through knowing where to find alternative sources of technology. A multi-disciplinary background is desirable on the part of the personnel, as well as practical experience of the production system; interchange of staff between this system and the centre would also be of advantage. The estimate of the manpower required and the phased plan for building up the strength should clearly be worked out on a country-by-country basis.

72. Financing requirements have also to be evaluated case by case. The principal item is salaries of staff, including ancillary personnel; then there are the rent of office accommodation and the purchase of office equipment, including calculating machines and the installations required for the storage and retrieval of information. Another major requirement is access to information sources, including access to the necessary data processing equipment, to the Government Statistical Office, to libraries and to other information services in the country or elsewhere. Finance should be as far as possible available on a regular and continuing basis and should not be dependent on annual government subventions. One possibility would be to employ a method similar to that used in Peru, where a specified percentage of the profits of all enterprises is used to finance the country's research and development activities.

### C. Subregional, regional and interregional linkages

73. Subregional, regional and interregional arrangements for the transfer and development of technology will be of little or no use unless there is at least a nucleus of national institutions. For present purposes, it is assumed therefore that national institutions will eventually be established and also that ultimately there will be a variety of linkages among them, in one form or another.

#### *Main functions of the interlinking centres*

74. By analogy with the sequence of functions vested in national centres – i.e. assistance in the identification of technological needs, in obtaining information about alternative sources of technology, including sources in the region or subregion, in the evaluation and selection of appropriate technologies, in improving the terms and conditions on which technology is imported, in the adaptation and absorption of imported technology and development of indigenous technology, and in disseminating newly acquired technology – it is suggested that the main functions of regional and subregional centres should be those described below:

(*a*) First and foremost, close linkages should be established with national centres so as to exchange information on each activity. In this way these centres would be able to promote and reinforce national activities in each country and indeed help to build up the national centres;

(*b*) Reinforcing national activities, particularly the search for technologies, investigation of their characteristics, finding alternative sources, determining costs and conditions. The centres should, therefore, build up continuing links with internationally organized sources of technological information and also with sources within countries of the region. Such activities should also lead to "most-favoured-nation treatment" of the exchange of technologies among the countries concerned. It is important that the more advanced of the developing countries within the group should make not only their experience but also the technologies they have acquired readily available to others less well placed;

(*c*) The centres should assist in strengthening and also harmonizing national legislation, investment policies and incentives, and rules for formulating, reviewing and improving arrangements for the import of technologies etc., thus improving the collective bargaining position of the countries of the group;

(*d*) As a consequence, the regional and subregional centres might become primary instruments for ensuring the observance of the provisions of the proposed international code of conduct on the transfer of technology when it is adopted;

(*e*) While regional and subregional centres should not themselves engage in research and development activities, they should be reciprocally linked with bodies providing engineering consultancy services, formulating industrial projects and carrying out R and D, particularly those operating on a regional or subregional basis. In this way the centres would play a decisive entrepreneurial part in the adaptation and development of indigenous technologies and increasingly so on a collective basis within the regional group in question;

(*f*) The centres should provide engineering consultancy services to countries within the group;

(*g*) The centres should play a major part in the provision of courses of training in all aspects of the transfer and development of technology.

75. There are a number of initiatives towards or possibilities of setting up regional or subregional centres. An Asian Centre is being established on the initiative of ESCAP, in co-operation with UNCTAD. It will probably be located in India and, in addition to performing the functions described above, it may be expected to promote Asian subregional groupings. It is also likely to serve as a means for channelling India's extensive experience in the transfer and development of technology to other countries.

76. The Caribbean and Central American countries are exploring forms of technological co-operation in their respective areas, for which purpose they will build on their existing subregional institutions; the initiative will be further examined during the forthcoming seminars with the assistance of UNCTAD. There may be scope for similar approaches within the African subregional groupings, such as the East African Community, the Central African

Customs and Economic Union and the West African Economic Community; and among the Arab countries in the Middle East.

77. The most advanced subregional grouping so far established for co-operation in the transfer and development of technology is that within the framework of the Andean Pact. There, a subregional centre has not been established but joint policies and specific projects have been developed.

78. There is also much scope for interregional linkages amongst countries which, although they do not have common boundaries have common interests, such as comparable levels of development, resources and production structures. Examples are the bilateral agreements between the Andean Pact countries and Argentina and Mexico, bilateral agreements between Andean Pact countries and India, and co-operation amongst Arab and African countries in the financing and planning of imports of technology. Further possibilities of interregional linkages have been indicated by the UNCTAD/UNDP exploratory mission and are referred to in chapter IV of the present report.

### D. Sectoral linkages

79. In examining the scope for sectoral linkages, i.e. technological co-operation on a sectoral basis, a useful starting point would be the classification of technologies with a view to establishing, in the first instance, better criteria governing import policies.[32] Such a classification would also be relevant to the priorities as regards developing indigenous industrial technologies, possibly with the support of UNDP in the form of global projects in accordance with its "New Dimensions" approach.[33] An example may be the fertilizer industry, where existing technology is advanced and the scale of output large, but since much of it is oil-based, costs have recently risen. An alternative technology has been developed in India for producing cooking gas and improved nitrogen fertilizers based on village-scale bio-gas plants, which not only shows promise of effecting savings in capital cost, foreign exchange and energy, but is also expected to generate substantial employment in the rural sector and save transport costs.[34] No doubt intensive research would disclose other possibilities. Then there are a number of industrial products, based for the most part on agricultural raw materials, mainly consumer goods and many with insufficiently exploited export potential, which could be manufactured with the use of technology that is not normally complex[35] and for which standardized data useful to many countries, and particularly those lower down on the development scale, could be made available regarding the conditions and costs of the transfer and also regarding the approach to developing or adapting the technologies domestically. These technologies are applicable to the processing of coffee and tea, edible oil products, tobacco products, the processing of hides and skins, footwear and leather products, meat and fish processing and canning, fruit and fruit juice and vegetable processing and canning, sugar refining, and to textiles and clothing. There is another group of products, mainly intermediate but also some capital goods, where the scale of output need not be large and where again technologies are not particularly complex,[36] of which examples are timber products, rubber products, articles made of plastics, metal products, agricultural implements, a considerable range of mechanical and electrical items, a number of chemicals, dyeing and tanning products, and a number of building materials and components. In the industries where the basic technology is what has been called traditional, it seems essential that developing countries should be in a position to obtain readily the data they need about available technologies, where to find them and what they cost. One possibility might be to build up multinational centres, globally and/or regionally, on a sectoral basis, for example, for textiles, edible oil products, footwear and leather products, forest products, rubber products, standard forms of machinery and electrical goods, building materials, etc. A number of countries producing the same products, e.g. textiles, sugar and cement, expressed to the UNCTAD/UNDP mission the need for such arrangements.

80. There are then a number of industries producing intermediate and capital goods in which the scale of output is large and the technology complex, but in which considerably fewer countries are active, for example those manufacturing metal products, complex industrial machinery, including electrical and electronic goods, commercial transport equipment, and petrochemicals.

81. There remain a number of luxury consumer goods, including durables such as passenger vehicles, domestic refrigerators, air conditioners and the like, some of which are being produced or assembled at high cost domestically through foreign controlled firms or with wholly imported technology. It has been proved in practice, from the experience of many countries, that there is no advantage to the country in producing these items locally – quite apart from the fact that these activities distort consumption patterns and lead to inequality of incomes. If countries wish to consume such products, it would be cheaper for them simply to import them. There would seem to be no reason at this stage to pay attention to them within the context of technology transfer and the development of indigenous technology.

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[32] See TD/B/595, para. 16.

[33] See the UNDP Administrator's report "New dimensions in technical co-operation" (DP/114) and the discussion and decision thereon by the UNDP Governing Council at its twentieth session, in June 1975 (*Official Records of the Economic and Social Council, Fifty-ninth Session, Supplement No. 2A* (E/5703/Rev.1), chapter II). See also General Assembly resolution 3405 (XXX) and its annex.

[34] A. K. N. Reddy, "Alternative technology: a viewpoint from India", in *Social Studies of Science* (Edinburgh), vol. 5, No. 3 (August 19745), p. 331. See also the report of an ESCAP workshop on bio-gas technology (E/CN.11/IHT/L.18).

[35] *Major issues arising from the transfer of technology to developing countries* (United Nations publication, Sales No. E.75.II.D.2), paras. 20-21.

[36] *Ibid.*

82. A specific example of the sectoral approach, that concerning pharmaceutical products, should be considered in greater detail.[37] Two separate approaches have been followed hitherto for the purpose of rationalizing the use of pharmaceuticals in developing countries. One has been the "medical" approach, which concentrated on scientific rationalization and financial economy, on the assumption that certain drugs produced mainly by the transnational corporations have to be imported and that their prices are given. The second approach has been "economic" and has concentrated on the structure of the international pharmaceutical industry and its practices and on the action which may be taken to effect a radical change; but the necessity for a wide range of existing drugs tends to be taken for granted.

83. A consideration of the problems of the importation, distribution and production of drugs in developing countries has to take into account in the first place their role in health policies and to recognize that they are only one factor in those policies. The more a country spends on unnecessary or overpriced drugs, the less it has left to spend on other aspects of the prevention of disease and medical care – to say nothing of the resources required to foster the socio-economic development that would alleviate or eliminate poverty itself, which is the primordial factor in ill health.

84. There are four main issues involved in a pharmaceuticals policy: therapeutic need and a cost-effective drug policy; importation; local production; and distribution. The criteria to be applied for the purpose of deciding which pharmaceutical products should be given priority, whether in importation or as candidates for possible production, are also four in number: the prevalence of the diseases for which the pharmaceutical product is indicated; the severity of the diseases; the effectiveness of the drug, absolutely and relatively to others; and its cost. On the basis of these criteria a country's requirements of pharmaceuticals could, for example, be divided into four categories: those of relatively low cost, which may be called first-line drugs to be used for dealing with perhaps 80-90 per cent of all health problems requiring treatment. The list of these drugs is probably relatively short but the quantities needed would be large. Second-line pharmaceuticals are needed less often but are more expensive, and hence the total quantity needed is much smaller. Third-line pharmaceuticals, in keeping with the same logic would form quite a long list and the products would be expensive but the quantities required would be very limited. The fourth category consists of those drugs which are not strictly needed at all and yet are imported at great expense for relatively trivial disorders or are capable of being replaced by cheaper drugs of equal or nearly equal efficacy. Once this type of approach is adopted and carried into practice, the problem becomes much more manageable, both with respect to importation and with respect to eventual production.

[37] See "A case study of the pharmaceutical industry" (TD/B/C.6/4).

85. The principal base for the chemical raw materials required for the manufacture of drugs is the petrochemical industry, which is viable in certain developing countries only and must be on a large scale. The production of the active ingredients of pharmaceutical products is economic on a relatively small scale; furthermore the chemical raw materials do not cost much to transport. It is these factors which open the door to co-operative production according to a planned division of labour amongst a group of developing countries.

86. At present, few developing countries can engage in more than the formulating and packaging stages and undertake production of the required basic chemicals, which are technologically complex, involve large-scale production to be economic and depend mainly on three raw materials that are themselves not always available, especially petroleum. The countries which are moving forward with the production of the basic chemicals are India, Mexico, Brazil, Argentina and Egypt. It has been suggested[38] that Co-operative Pharmaceutical Production and Technology Centres (COPPTECs) should be set up with, as their main objectives, research into basic medical needs for drugs; improving the terms on which imported drugs are purchased; research and development into the adaptation and development of technologies; and finally, over a period of years, production of the basic chemicals themselves, at first in the more advanced of the developing countries referred to and gradually also in others, in keeping with a consciously planned international division of labour (geographical proximity in such arrangements is not required since transport costs are low). The oil-producing less-developed countries could play an important part since petroleum is the principal raw material and they have the financial resources.

87. There are also possibilities of producing pharmaceutical products from plant and animal sources. These are being investigated in some developing countries (e.g. Ghana). The wide possibilities of finding natural resource bases in a country like Tanzania have been well described.[39] Needless to say, whatever approach to production may prove appropriate, there is a need for quality control, but there are ways and means of ensuring this control on the basis of WHO standards.[40]

88. In so far as they import materials and within the selective framework which has been indicated, it would seem desirable that governments of developing countries should resort to bulk purchase. It is clear that efficient distribution arrangements will be needed, especially in rural areas. Bulk purchasing would facilitate the diversification of

[38] *Ibid.*

[39] For a specific account of this and the technical and economic factors involved see C. Barker, "Pharmaceutical production in a less developed country", in M. Segall and C. Barker, "Two papers on pharmaceuticals in developing countries", Institute of Development Studies of the University of Sussex, Communication 119, Brighton, 1975.

[40] See *Official Records of the World Health Organization No. 226, Twenty-eighth World Health Assembly, Part I, resolutions and decisions,* annex 12.

sources (other than the well-known multinational corporations) e.g. small manufactures, countries without patent laws, such as Italy and Finland, and the socialist countries.

89. Within the context of both importation and possible future production, the proposed national centres for the transfer and development of technology would have a major part to play particularly in the following:

(*a*) Formulating a cost-effective drug policy linked to health care needs, resources and the national development plan;

(*b*) Legal, administrative and related questions relevant to drug importation, production, promotion, marketing, distribution and sales;

(*c*) The initiation of indigenous production of pharmaceuticals;

(*d*) Methods of implementing a cost-effective drug policy;

(*e*) Improved methods of distribution of pharmaceutical products, including their storage and transport.

90. The national centres could be reinforced by regional or even global arrangements through the COPPTECs already referred to (see para. 86 above).

91. These arrangements could be facilitated by assistance, in their respective spheres but on a co-ordinated basis, by UNCTAD, WHO and UNIDO, perhaps within the framework of a UNDP project.

## CHAPTER III

## *Information requirements and the need for international action*

### A. Interlinking information and decision-making

92. One of the essential components of the type of institutional arrangements for the transfer and development of technology described in chapter II is machinery for the provision of information of a kind appropriate for the purpose of technological decision-making. Increasing importance is being attached by the world community to the effective dissemination of scientific and technological information. It is now fully recognized, as will be shown in this chapter, that there is an urgent need for a new approach in this area. The present chapter provides a broad review of the status of the discussion, from the standpoint of those concerned with the transfer and development of technology. It should be stressed that no attempt is made to examine the whole wide field of scientific and technological information systems. In the present context, the issue is how to improve the availability of suitable technological information, not as an end in itself, but rather as a means for attaining the objectives of the institutional arrangements for the transfer and development of technology.

93. Information is a critical input in the sequence of interrelated activities ranging from the formulation of sound and coherent policies in the areas of technology and foreign investment, to an effective evaluation, selection, acquisition, adaptation, utilization and further development of technology at the project implementation stage. The appropriateness and effectiveness of decisions taken at any of these stages depend directly on the quality of the information at the disposal of the decision-makers.

94. Technological decision-making is a complex process that has to take into account a large number of different elements, including political, economic, social, legal, commercial, scientific and technical considerations, among others. Consequently, technological information has to be conceived of in a particularly broad manner. The exclusion of one type of information from the decision-making process may in fact render the whole process entirely or partially inadequate. There is thus a clear need for comprehensive and multidisciplinary information in the area of technology.

95. In order that information may be used effectively, it is essential to ensure an appropriate correspondence between the information and the decision-making machinery on the one hand, and between such machinery and the activities to be undertaken, on the other. The first stage in the analysis of information requirements involves, therefore, identifying the relevant activities to be undertaken and the appropriate institutional and decision-making machinery for doing so. The second stage is then concerned with providing such machinery with the information it requires.

96. It is important to distinguish between three types of separate, although interrelated, activities in the field of technology, so far as information requirements are concerned. First, at the policy formulation level there is a need to draw up national policies relating to foreign investment, contractual arrangements for the transfer of technology, local research and development, government procurement and the initiation of large-scale public projects and other matters. The adequacy of the policies adopted must be constantly checked and periodically re-evaluated and modified. There is thus a need for a continuous flow of information about developments in technology-related areas both within and outside the country.

97. A second type of activity is related to the evaluation and selection of projects at the micro- or enterprise level. What is required at this stage is information about alternative technologies and sources of supply, including information about minimum costs, terms and conditions, technological specifications, guarantees, delivery and implementation schedules, resource and manpower requirements, etc. This information should enable the recipient to unpackage the technology, make the optimum selection and negotiate effectively with suppliers.

98. The third type of activity covers local design, engineering and R and D. The successful adaptation of foreign technology to local conditions and the generation of local technology depend directly on the national capability in these areas. The information required for these activities is mainly of a technical or scientific nature.

99. Information relevant to technological decision-making originates from many sources: local enterprises,

laboratories and R and D institutions, government ministries and agencies, foreign suppliers, the international scientific community, etc. From the point of view of a developing country, such sources can be divided into local and foreign ones. As regards foreign sources, the problem of obtaining information is particularly difficult since much of it is not publicly available. It is in this area that a strong case can be made for external assistance to developing countries; the less easily accessible and the more critical the information needed for technological decision-making, the stronger is the case for international action.

### B. The response of the international community

100. The importance of the function of information in the development process of the developing countries has received increasing recognition by intergovernmental bodies. Conference resolution 39 (III) called for a number of measures to be taken in this area.

101. Further recognition of the problem of supplying technological information was given by the Economic and Social Council at its fifty-seventh session. In the fourth preambular paragraph of its resolution 1902 (LVII), the Council notes that:

...

(*b*) It is necessary for developing countries to have a knowledge of alternative available technologies, together with analyses of the economic costs and benefits and relevant data on the requirements of capital, labour, raw materials and other factors of production,

(*c*) The transfer of technological information, including its collection, retrieval and analysis, is basic to the assessment of the technological perspectives and of the ecological, economic and social effects involved,

...

(*e*) The availability of technological information from international sources could improve the capability of the developing countries of taking the fullest advantage of existing knowledge, so providing new alternatives and approaches to the solution of technical problems and assisting them in the rationalization and systematization of their research and development efforts.

102. In paragraph 1 of that resolution, the Economic and Social Council requested the Secretary-General, "with a view to ensuring that developing countries can readily obtain information beneficial to their technological planning, evaluation and development, to undertake ... a feasibility study on the progressive establishment of an international information exchange system for the transfer and assessment of technology".

103. The Lima Declaration and Plan of Action adopted by the Second General Conference of UNIDO in March 1975 states in paragraph 61 (*k*) that "appropriate measures, including consideration of the establishment of an industrial and technological information bank, should be taken to make available a greater flow to the developing countries of information permitting the proper selection of advanced technologies".[41]

104. The General Assembly, on 15 December 1975, adopted resolution 3507 (XXX), in which it reaffirmed "the importance of wider dissemination of scientific and technological information, ... and the need to enable developing countries to select technologies which meet their requirements". In addition to requesting the Secretary-General "to establish an interagency task force, ... with a view to the preparation of a plan for the establishment of a network for the exchange of technological information", the General Assembly recognized the clear link existing between technological information and appropriate institutional arrangements in the field of technology, by simultaneously calling for continuing efforts "to assist in the establishment, in developing countries, of centres for the transfer and development of technology". Resolution 3507 (XXX) thus provides the framework for an integrated effort by the international community in these two closely interrelated and interdependent areas. In essence, it is now clearly recognized that what are needed are, on the one hand, mechanisms to ensure access by developing countries to information enabling them to formulate appropriate technological policies and to select the appropriate technology from among the various kinds available, and, on the other hand, institutional arrangements of a type enabling them not only to gather and analyse the information but also to take the necessary decisions.

105. Initiatives have been taken by various organizations to provide information to developing countries in the area of technology. Most of them are of recent origin and the systems they have produced are not yet fully operational; among those that are, several are being expanded considerably. Hence it is not easy to make a clear assessment of the multitude of activities now being carried on in this area. The present section can provide only a preliminary and incomplete description of the current stage of international activities in the area of technological information systems.

106. A number of international organizations, among them UNESCO, UNIDO, FAO, WIPO, WHO, IAEA, WMO and ILO, are at present involved in the creation or operation of technological information systems within the scope of their specific competence.

107. Although the existing and envisaged information systems differ from each other in several ways, some general observations can be made at the present stage. They are generally technically sophisticated and rely heavily on advanced computer technology and data management techniques. Most are aimed at bringing to the knowledge of policy-makers and specialists in developing countries the vast amount of conventional and non-conventional literature (the latter includes dissertations, research reports, feasibility studies, patent documents, etc.) on aspects of interest to the developing countries. The utilization of such systems should help those concerned to find references to, locate, and in some cases obtain most of the relevant literature on a given subject. In other words, the aim of such bibliographical information systems is to facilitate access by developing countries to existing and publicly-available sources of information. Some of the programmes in this category include or envisage facilities for providing the users with the actual documents, while others will supply only the references to documents.

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[41] See foot-note 2 above.

108. Some information programmes provide data not only concerning publications but also concerning current or completed research projects. Such information is particularly relevant to the planning of R and D activities in developing countries. The Current Agricultural Research Information System (CARIS) and the Aquatic Sciences and Fisheries Information System (ASFIS) of FAO merit particular attention in this respect.[42]

109. One type of information programme which differs markedly from those described above is UNIDO's Industrial Inquiry Service (IIS). The IIS provides answers to inquiries from developing countries relating to industrial equipment, technologies, statistics, marketing, industrial programming and management. UNIDO is also building up a referral service of producers of industrial equipment in developed countries.[43]

110. Mention should be made of the Universal System for Information in Science and Technology (UNISIST). UNISIST is not an information delivery system as such but rather a programme within UNESCO which aims to co-ordinate and promote national and international co-operation in the field of information.[44]

111. The Secretary-General of the United Nations has submitted a report[45] to the Committee on Science and Technology for Development as part of the feasibility study requested in Economic and Social Council resolution 1902 (LVII) (see paras. 101 and 102 above). The report contains a number of conclusions which are of significance for the future work of international organizations in the area of technological information. The report observes that "this information must include the type of data necessary to evaluate technology and so to take appropriate decisions. Information as to the terms and conditions on which technology may be imported is required as part of the evaluation and such information also enhances the bargaining position of the user".[46] The report notes further that "Consultations within the United Nations system has shown a lack of adequate information regarding the full spectrum of technological information needs of developing countries".[47] It concludes in addition that "on the basis of the work carried out for the present feasibility study, it is already clear that the actual needs of technological information users cannot be met only through systems providing solely bibliographical references...".[48]

112. The recommendations of the report relate essentially to the need to carry out surveys which would indicate the technological information requirements of the developing countries and the extent and nature of on-going and planned activities at the national and international levels in this area in order to identify specific gaps and overlaps.

### C. Some suggestions for improving the technological information base

113. Even before the type of surveys referred to above are undertaken, some of the major gaps are readily identifiable.[49] The first is the lack of sufficient know-how and expert knowledge on the part of decision-makers in developing countries in three interrelated areas: technological policy formulation, implementation of the policy at the macro-level, and project evaluation at the micro-level. There is also a need to determine the appropriate institutional mechanisms for carrying out the relevant activities in these areas. Only after the functions and institutional arrangements have been clearly defined will it be possible to determine adequately the technological information required.

114. The international organizations could give their support by providing advice and technical assistance in the formulation of technological policies, the establishment of appropriate institutions, and defining the corresponding information requirements. In addition, analytical studies and guidelines may have to be prepared to provide additional support in this area.

115. For the purpose of assessing the merits of alternative technologies and sources of supply, what might be particularly useful – but is not generally available to decision-makers in developing countries – is an objective evaluation by other recipients who have already had experience of such technologies and sources of supply. The provision of such information in suitable form may require new international mechanisms specifically designed for the purpose.

116. One possibility, for example, would be an arrangement based on a standard questionnaire covering, *inter alia*, the range of topics referred to in an international code of conduct on the transfer of technology; in their replies, recipients of technology in developing countries would give an indication of their own experience with given technologies and suppliers. They would be invited to provide information relevant to the evaluation of alternatives by potential recipients and mention specific problems encountered during the entire process of the transfer attributable to the practices of the supplier or to some features of the technology itself.

117. A national registry would keep a record of all technology transactions (foreign as well as domestic) and periodically request recipients to provide a standardized evaluation report on each technology transaction on an *ex*

[42] See "The role of an international technological information system in the transfer and assessment of technology and in the indigenous growth of appropriate technologies in developing countries: report of the Secretary-General" (E/C.8/32), annex II, pp. 5 and 6.

[43] *Ibid.*, pp. 2-4.

[44] *Ibid.*, pp. 6-9.

[45] E/C.8/32.

[46] *Ibid.*, para. 59.

[47] *Ibid.*, para. 60.

[48] *Ibid.*, para. 62.

[49] In this connexion, there is a need to make a clear distinction between technological documentation and technological information. The latter is basically market-oriented and rapidly changing and cannot therefore be collected in advance. See TD/B/595, para. 23.

*post* basis. A central unit at the global level would pool all such reports from the national centres and produce composite files giving particulars of suppliers and technologies. The composite files, which would provide an over-all world-wide evaluation of individual suppliers and technologies, would be periodically distributed to the national centres, which would make them available to interested domestic organizations or enterprises.

118. The mechanism outlined above would provide an incentive to suppliers to conform to or surpass the standards set by a code of conduct since the rating they would have in the composite file might profoundly affect their ability to market their technology in developing countries. Moreover, when negotiating with potential suppliers, recipients would have a powerful tool at their disposal, for they would know about the typical problems likely to arise with a given supplier and his technology, and they would be able to compare relatively easily a large number of suppliers and so insist on the most favourable terms provided by any supplier in a given sector.

119. Such a scheme should cover suppliers and technologies from the developing countries themselves. It could then serve as a promotional mechanism for the exchange of technologies generated or adapted in developing countries. In the progressive establishment of the technological information exchange network, priority might be assigned to technologies provided by developing countries.

120. A different type of programme might consist of the establishment of technological evaluation units at the international level. Such units, which might perhaps function on a sectoral basis, would undertake periodic technical or economic investigations and performance and quality testing of a range of alternative technologies in sectors of particular interest to developing countries. Special consideration would be given to technologies originating in developing countries. The results of the testing and analysis would be published and made available to the developing countries.

121. Information provided by technological evaluation units, which would be updated at appropriate intervals, would enable recipients to evaluate different technologies on the basis of standard criteria and to choose the one most suitable for their purposes. Moreover, such information would also be more objective than information provided by suppliers of technology.

122. The information provided through the mechanisms described above would not in itself be a sufficient basis for appropriate decisions on the transfer and development of technology, which require centres or other institutional arrangements of the kind discussed in Chapter II. It would, however, supplement in a critical area the information base available to decision-makers, and help to close some of the gaps.

CHAPTER IV

## *A programme of international co-operation for strengthening the technological capability of developing countries*

### A. Outline of a programme

123. This chapter gives an illustrative outline of a possible programme of international co-operation and assistance to developing countries with a view to strengthening their national technological capability. The main kinds of international co-operation and assistance required may be summarized as:

(*a*) Technical assistance, where requested by governments of developing countries, in establishing or strengthening institutional machinery for the transfer and development of technology;

(*b*) Similar assistance in establishing linkages between national, subregional, interregional and sectoral machinery;

(*c*) Advisory or training services, including short-term advice to governments on specific problems over the whole field: on-the-job training, interregional, regional and subregional training courses, and training effected by taking a small group of persons from one country or from particular countries to another developing country which has acquired experience in the specific area;

(*d*) Seminars or workshops at which policies and institutions can be examined in depth;

(*e*) Further economic and institutional research, particularly by the centres and by universities or development institutes; for example, case studies of the transfer and development of technology by a group of countries; studies of technology transfer in specific sectors, including the rural sector, infrastructure and services, in order to determine what kinds of transfer have or have not been effective;

(*f*) Assistance in expanding and improving the activities of research and development institutes and, in particular, their linkages, on the one hand with those responsible for the importation of technology and its adaptation, and, on the other, with the productive system;

(*g*) Assistance in setting up global, regional and national information support systems.

124. The value of the return from a strictly practical programme containing such elements would soon be many multiples of its cost. In the most proper sense of the term, the funds required would not be investment but "seed money". The return would be a double one, growing in the course of time. There would be immediate savings to the developing countries in that the costs of transferring technology would be reduced; such savings have already been attained to a significant degree by, for example, Argentina, Colombia and Mexico. This kind of saving would steadily increase and spread to more and more countries. In the medium term, the adaptation of imported technology, the generation of indigenous technology and the wide diffusion of all newly acquired technology could increase production and incomes in developing countries, for their own benefit and also for that of an expanding world economy. The process would be reinforced by increasing co-operation among developing countries. In the long run, major steps would have been taken towards the techno-

logical independence of developing countries, with further benefits to the world economy as well.

### B. Contributions to the programme

125. There are three parties which should be expected to contribute to such a programme: the developing countries themselves, the developed countries, and the appropriate international organizations, the last two where requested to do so.

#### 1. *Developing countries*

126. The starting point of an international programme for the transfer and development of technology must be a determination on the part of developing countries to establish their own policies and institutions, their own technological plans, with national centres (whatever they may be called) as the crucial first step. These centres would be progressively linked subregionally, regionally, interregionally and by sectors, and all within the framework of national and collective self-reliance. The process has already started and is gathering force rapidly. Nevertheless, a programme of technical assistance by a variety of means is clearly required.

127. Much of the technical assistance personnel required could be provided from within the group of developing countries. As to its financing, some countries would be able and would be likely, given the returns, to pay for their requirements and some to pay for part of them. In the former category, there are 11 countries which are petroleum exporters and 29 others with a GNP *per capita* of $376 and over. In the latter, with a GNP *per capita* of $200 – $375, there are 23 countries. Of the remaining 35 countries with a GNP *per capita* of less than $200 it may be assumed that they would require external support for all their technical assistance requirements.[50]

128. There are a number of initiatives now under way towards promoting collective self-reliance or co-operation among developing countries. Among these initiatives it would seem that efforts to promote technological capacity should occupy a place of special significance.

#### 2. *Developed countries*

129. Some developed countries may wish to contribute to a "fund in trust" for the purpose of helping developing countries to strengthen their technological capacity. It should be recalled that two such countries, Canada (Canadian International Development Agency (CIDA)) and Sweden (Swedish International Development Authority (SIDA)) have already supported UNCTAD's programmes in the field of technology transfer and development. The contribution of SIDA has so far been devoted to training, but it might perhaps consider whether its assistance could be extended to other aspects of the transfer and development of technology.

130. The developed countries might be invited to assist in promoting the transfer and development of technology in other respects also:

(*a*) Where the centres, or other institutional arrangements, are being established with UNDP support, additional experts might be provided through bilateral aid to the UNDP project. This approach has been welcomed by the UNDP Governing Council and is spreading;

(*b*) Governments might take a more active part in guiding the policies of transnational corporations in the transfer of technology, as implied by the proposed international code of conduct for the transfer of technology;

(*c*) Public sector enterprises in developed countries might be encouraged to assist developing countries in the transfer and development of technology; they might also set a standard of good practice;

(*d*) Developed countries normally have export promotion machinery, often aimed particularly at helping small and medium-sized firms, which have much to offer in the transfer and development process. Governments could make available particulars of such firms to the centres;

(*e*) The World Association of Industrial and Technological Research Organizations is sponsoring linkages between R and D institutes in developed and developing countries. Most of these institutes are government-supported, and the governments of developed countries might encourage this activity. In this context, the recommendation by the General Assembly, in paragraph (63) of the International Development Strategy for the Second United Nations Development Decade,[51] that research and development institutes in developed countries should do much more research specifically for developing countries could be followed up;

(*f*) Transnational corporations might be encouraged by governments to play an active part in providing assistance to research in developing countries into more appropriate technologies, including technology for the production of consumer goods from local resources and suitable for mass consumption – the centres for the transfer and development of technology would be natural focal points for planning such research;

(*g*) Governments might support and encourage foundations to support intensive research on a global basis in areas where there is a need for new technologies to be used in developing countries (as happened in the case of tropical wheat and rice). This support would strengthen the sectoral approach discussed in chapter II.

#### 3. *International organizations*

131. In seeking assistance from international organizations – or for that matter from any source – developing

[50] Figures are from the *1974 World Bank Atlas* (Washington, D.C.). In the group of developing countries referred to, China, Cuba, the Democratic People's Republic of Korea, Mongolia and the Democratic Republic of Viet-Nam are not included.

[51] General Assembly resolution 2626 (XXV) of 24 October 1970.

countries must first define clearly their own development policies, the technological component of those policies and their own appropriate institutional arrangements, at least in outline. Not until then can they define their requirements for external assistance and state from where they wish to obtain it. Nevertheless, there is a widespread feeling that there is "a need to improve further co-ordination and integration among United Nations agencies and their programmes in the field of transfer of technology" and that there is "a strong and increasing need for the agencies to combine their competences so as to exploit economies of scale, and to do so through practical working arrangements".[52]

132. As a result of its special competence in the field of the transfer of technology, UNCTAD clearly has a central function to perform in providing assistance to developing countries in the wide area covering the formulation of technology policies and plans, the establishment of appropriate institutional arrangements for the transfer and development of technology, and the training of specialized personnel.

133. The UNCTAD secretariat has been providing technical assistance to developing countries in the area of transfer of technology for a number of years as part of its responsibilities defined in Conference resolution 39 (III). Several recent developments, described in detail in a note submitted by the Secretary-General of UNCTAD to the seventh special session of the Trade and Development Board,[53] have led to a considerable expansion of the scope of UNCTAD's activities in this area. Requests for assistance from developing countries are not only rapidly increasing in volume, but are also of a much more complex nature than in the past. The present *ad hoc* response by UNCTAD in this area has become entirely inadequate and a new approach is urgently called for. The Secretary-General of UNCTAD, in his note to the Board, has therefore stated his intention to establish within UNCTAD an advisory service on transfer of technology.[54]

134. Some operational resources in the area of transfer of technology will be made available to UNCTAD in 1976 through voluntary contributions by the Swedish and Canadian authorities and through UNDP assistance. The Secretary-General of UNCTAD has pointed out, however, that "the task at hand will still require a much larger volume of extra-budgetary resources".[55]

135. The other organizations concerned are UNIDO, with its responsibilities for industrial research and development, for the preparation and evaluation of industrial projects and for assistance in setting up institutions in these and related fields such as Industrial Consultancy Centres, as has already been done in a considerable number of countries; FAO, which carries out similar activities in the field of agriculture; UNESCO, which is concerned both with science policy and the horizontal transfer of scientific information, and also with the vertical transfer process, and whose activities range from fundamental scientific research through applied research and development down to the application thereof and the stimulation of further innovation; WHO, which has an interest not only in medical science but also in such related issues as pharmaceutical policy; ILO, which deals with industrial training programmes and employment policies; and WIPO, which is active in the field of intellectual property. The regional commissions have an important part to play in collaboration with the agencies in their respective fields.

136. UNDP is in a separate category, for it is an organization which finances the technical assistance activities that are executed by the agency or agencies concerned. Most of its resources are allocated to country programmes according to a five-year cycle, with an indicative planning figure (IPF) established for each developing country by the Governing Council. It is for the government of each country to decide for itself how it wishes to apportion there resources among competing priorities. It is open to any government, therefore, to decide to include projects for the establishment or strengthening of institutions responsible for the transfer and development of technology. There are also regional programmes and an interregional programme, within which further assistance could be obtained, e.g. for establishing subregional, regional, or interregional linkages, for the provision of advisory or training services and for regional or interregional seminars and workshops.

137. In conclusion, it may be useful to give some examples, drawn from the UNCTAD/UNDP exploratory mission's report, of the kinds of assistance being sought by governments and how assistance might be provided through joint efforts on the part of the international agencies. Among the countries which are seeking to establish both comprehensive national policies and a centre, in one form or another, that would deal with the transfer and development of technology are Afghanistan, Algeria, Dominican Republic, Ethiopia, Iraq, Nepal, Philippines, United Republic of Tanzania and Venezuela. In each case a preparatory mission is requested both for assistance in the preliminary assessment of the situation and for assistance in drawing up a detailed project that would receive subsequent assistance on a longer-term basis. In each case also there is a training requirement, which will have to be specifically assessed and met in a variety of different ways. As the organization with the central responsibility for the transfer and development of technology at the over-all policy and institutional level, UNCTAD would be expected to organize and lead the preparatory mission, with the participation of the other agencies as appropriate. Such a mission might be financed by the requesting government, by UNDP or through "funds in trust" made available to UNCTAD by developed countries. Subsequently finance might be provided by one of these sources or by a combination of funds from these sources. While substantive support would normally be provided by UNCTAD, the experts would be provided by or through the appropriate agency, depending on the country's requirements. For example, UNCTAD

[52] TD/B/595, para. 18.

[53] TD/B/597.

[54] *Ibid.*, para. 26.

[55] *Ibid.*, para. 30.

would advise on over-all policies, serve as the focal unit of assistance in the establishment of institutional structures and advise on contractual arrangements (legal and commercial) relating to the transfer of technology; UNIDO would deal with industry, FAO with agriculture, WIPO with the technical aspects of intellectual property and so on.

138. Examples of requests for assistance in the establishment of subregional arrangements are those made by El Salvador in connexion with a detailed assessment of possibilities of improving technological transfer and development, leading to policy conclusions, which should also serve as a pilot project for Central America; and those made by Iraq for a seminar for Middle East Arab countries which could pave the way for continuing technological co-operation. Action in pursuance of these requests would follow an approach similar to that suggested for the country level.

139. Among interregional possibilities identified are requests from Ethiopia and the Sudan for a sectoral co-operation approach to the transfer and development of technologies, particularly of technologies to be used in the textiles and sugar industries, and a request for sectoral studies of India's experience. In such cases UNIDO and/or FAO would play a major part. As indicated earlier, a follow up of the work already done on pharmaceuticals would require a joint UNCTAD/WHO/UNIDO approach. Other requests for specific interregional projects, in which UNCTAD would have the main responsibility, but in which, the co-operation of other agencies would be desirable, are a request by Tanzania for the organization of a workshop to promote collective self-reliance in the transfer and development of technology, through an examination of the experience of the participants – countries with similar economic and social policies but at different levels of development – in the matter of sources and specification of technologies, mechanisms, terms and conditions governing transfer and approaches to adaptation and indigenous development; and a request by Mexico, supported by Venezuela, for the organization of a workshop that would consider the experience of the more advanced developing countries in the transfer of technology, with a view to the preparation of a handbook.

140. These are examples only. But they serve to show not only the scope for joint approaches by the international organizations, but also that what is required is not so much "co-ordination" as a sensible case-by-case approach to the pooling of resources and specific competences. UNCTAD is ready to play the central part in responding to requests for assistance in the formulation of policies and in the establishment of instructions for the transfer and development of technology.

# DOCUMENT TD/191*

## Action on special measures in favour of the least developed among the developing countries, the developing island countries and the developing land-locked countries: policy issues and recommendations

*Report by the UNCTAD secretariat*

[*Original: English*]
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CONTENTS



* Incorporating documents TD/191/Supp.1 of 26 March 1976 and TD/191/Supp.1/Add.1 of 19 May 1976.

*STATISTICAL ANNEX*

## *Preface*

1. The United Nations Conference on Trade and Development has played a pioneering role in efforts to provide for special measures in favour of the least developed among the developing countries and geographically disadvantaged developing countries.[1] Work in favour of the least developed countries and the land-locked developing countries began with the first session of the Conference. At the third session of the Conference, a study of the special problems of developing island countries was launched, and this work has since been refined to stress measures for the more geographically disadvantaged developing island countries.

2. In striving for action in these various areas, two things need to be clearly recognized. First, all these categories of country can be expected to derive important benefits from at least some of the general policy measures on behalf of all developing countries which UNCTAD has espoused in the past and in particular from the general measures which the Conference itself will be considering for action at its fourth session. Indeed, the success of these general measures will be crucial also for the progress of the special categories of country dealt with here. Secondly, it needs to be stressed that, while the Conference will find that for all three categories action is overdue, the nature of the problems and difficulties to be dealt with in each of these programmes of special measures is quite different, and the action called for needs to be carefully adjusted to the requirements of each group. The present report is accordingly divided into three separate chapters, each containing a set of recommendations for action. Basically, it should be noted that the category of the least developed countries has been defined as including countries which are the weakest according to critical economic and social indicators, while the other two categories are based on specific geographical disadvantages. The additional special measures called for on

[1] In 1975, the General Assembly, in its resolution 3487 (XXX), added four countries (Bangladesh, the Central African Republic, Democratic Yemen and the Gambia) to the original list of 25 identified as the hard-core least developed countries, selected on the basis of criteria relating to *per capita* income, literacy and the share of manufacturing in their total output. The 25 countries originally identified as the least developed by the United Nations were Afghanistan, Bhutan, Botswana, Burundi, Chad, Dahomey, Ethiopia, Guinea, Haiti, Laos, Lesotho, Malawi, Maldives, Mali, Nepal, Niger, Rwanda, Sikkim, Somalia, Sudan, Uganda, United Republic of Tanzania, Upper Volta, Western Samoa and Yemen. The group of the least developed countries thus now comprises a population (1973 estimate) of 239 million or 13.0 per cent of the population of all developing countries (excluding China and southern European countries).

behalf of land-locked developing countries are aimed particularly at overcoming their transit transport problems, but it is important to remember that the great majority of the land-locked countries are also among the least developed.

CHAPTER I

## *Special measures in favour of the least developed among the developing countries*

### A. The need for action

3. Despite growing international awareness of the economic problems of the "hard-core" least developed countries, their situation and prospects remain, with a few exceptions, desperate. Indeed, at the time when the Conference is about to hold its fourth session, most of these countries appear to be in a worse position than they were at the time of the third session. The international community had adopted a number of special measures for these countries and the third session of the Conference at Santiago, Chile, marked a new stage with the adoption of a wide-ranging set of measures in resolution 62 (III). Since then, there has been a thorough review of the situation facing these countries, at the first meeting of the UNCTAD Intergovernmental Group on the Least Developed Countries in July 1975. The Group was able to make some progress, particularly with respect to financial and technical assistance, and it passed on for further consideration proposals in other areas, particularly that of commercial policy.

4. The fact remains, however, that the special measures so far adopted have led on the whole only to relatively small, although positive, results in the fields of financial and technical assistance, and that in other areas very little indeed of practical significance has yet been accomplished. It is also true that many of the measures so far adopted have been very general, calling for increased attention to or higher priority for policy measures on behalf of all developing countries. While there is a greater understanding of the nature of the problems facing the "hard-core" countries, and there have been some important new initiatives which may yield considerable benefits later on, it seems clear that far too little is being done and, what is perhaps more important, that far too little is being planned on their behalf. Far larger and more effective efforts are urgently needed to help these countries to improve their economic and social well-being. The Conference therefore needs to consider the measures it can now take to assist these weakest developing countries to escape the prospect of continuing, and deepening, acute poverty. The proposals below are aimed at providing for commitments by the international community which go beyond those previously agreed on, at reaffirming and making more explicit the commitments previously made, and at strengthening the sense of urgency and the political will to implement a far more effective action programme in the future.

### B. The deteriorating economic position of the least developed countries[2]

5. Before considering specific action proposals, it is worth taking a brief look at the disconcerting data on the economic position of the hard-core least developed countries.[3] The real *per capita* GNP of these countries, taken as a group, grew at an annual rate of only 0.7 per cent during the 1960s, and virtually no growth at all was recorded during the first four years of the Second United Nations Development Decade. Stagnation of this sort means that the hope, expressed in the International Development Strategy, that the poorest developing countries would achieve a growth rate in *per capita* income higher than 3.5 per cent per annum remains so far entirely unfulfilled. The *per capita* incomes of only three of the countries (Botswana, the Gambia and Malawi) recorded growth rates above this minimum during the period 1970-1974. Indeed, 14 of them (with almost 80 per cent of the total population of the group) recorded *per capita* income growth rates of less than 1 per cent per annum during the early 1970s, and 10 of these (with over half the population) suffered actual declines.[4] Agricultural and food production, which had just kept pace with the growth of population during the 1960s, actually declined for the group as a whole during the 1970-1974 period. Related indicators for manufacturing and investment also suggest a weaker performance by the hard-core least developed countries during the early 1970s. While the recent widespread droughts which affected many of the least developed countries have further weakened their position, the long-term stagnation of most of them reflects deep-seated structural difficulties.[5] These problems were sharply aggravated in 1974 and 1975 by the world economic crisis.

6. In areas of special policy concern to UNCTAD, the extreme difficulties facing the least developed countries can be most clearly seen in their starkly limited ability to obtain foreign exchange, through higher export earnings, effective import substitution (including efforts to attain food self-sufficiency) or expanded flows of assistance. Both the level and the growth of foreign exchange available to the least developed countries have been far inferior on average to that available to other developing countries, as the data in the following table (expressed in constant 1974 dollars) indicate:

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[2] See also the report by the UNCTAD secretariat entitled "Review of progress in the implementation of special measures in favour of the least developed among the developing countries" (TD/B/AC.17/3) (parts I and II), in particular part I (The economic situation and performance of the least developed countries); also, the statistical annex to the present report.

[3] See foot-note 1 above.

[4] See table 1 of the statistical annex below.

[5] See the report by the UNCTAD secretariat entitled "An assessment of constraints on development and the role of external assistance in the least developed countries" (TD/B/AC.17/Misc.1) for an analysis of the main restraints on development facing these countries and the role that foreign financial and technical assistance might play in helping to overcome their problems.

| | The least developed countries | | All other developing countries[a] | |
|---|---|---|---|---|
| | 1965-1968 average | 1974 | 1965-1968 average | 1974 |
| 1. Export purchasing power *per capita* | 20.2 | 12.8 | 49.4 | 62.2 |
| 2. Total financial flows[b] *per capita* | 8.2 | 11.4 | 18.3 | 20.8 |
| *of which:* Official development assistance[c] *per capita* | (6.8) | (6.9) | (9.9) | (6.7) |
| Loans and grants from OPEC countries[d] | – | (2.7) | – | (2.5) |
| 3. Total foreign exchange availabilities *per capita* (= 1 + 2) | 28.4 | 24.2 | 67.7 | 83.0 |
| 4. Import volume *per capita* | 26.2 | 22.1 | 61.9 | 80.7 |
| 5. GNP *per capita*[e] | 101 | 102 | 248 | 316 |

[a] Excluding major petroleum exporters.

[b] Includes: (1) net disbursements of loans and grants from DAC member countries and multilateral institutions, (2) net disbursements on loans from socialist countries of Eastern Europe, (3) net disbursements on loans from China, (4) net disbursements on loans and grants from OPEC countries, (5) net private investment flows from DAC countries, and (6) for 1974, estimated net disbursements on Euro-currency borrowings.

[c] From DAC member countries and multilateral institutions.

[d] Including OPEC-financed flows from the IMF oil facility.

[e] At 1973 constant prices.

7. The low level of the export earnings of the least developed countries reflects their low income levels and the fact that their agricultural sectors are still largely at subsistence level, but even more disconcerting than the low level of earnings is the utter lack of progress. From the bleak picture presented in paragraph 6 above, it is clear that the purchasing power *per capita* of the exports of the least developed countries declined steadily during the early 1970s, with a further sharp decline in 1974, the total decline since the mid-1960s being 37 per cent.

8. It is true that total financial flows, in real terms, have increased by about $3 *per capita* since the mid-1960s and that official development assistance *per capita* for the least developed countries now slightly exceeds the average for other developing countries. However, the over-all import volume *per capita* which the least developed countries have been able to command has declined markedly (particularly since 1970), and in 1974 represented, on average, only one-fourth of the import capacity achieved by other non-oil-exporting developing countries.

9. Even though total financial flows *per capita* represent only about half those available to other non-oil-exporting developing countries, these flows play a far more crucial role in the hard-core least developed countries in supporting their imports. For 11 of the least developed countries, these flows accounted for more than half their imports in 1973 and in 1974.

10. While overcoming the structural handicaps of these countries is obviously far more complex an undertaking than simply expanding their foreign exchange receipts, any serious development efforts on their part are severely restricted by their very limited internal resources. Stronger efforts need to be made to improve the mobilization of domestic resources, both in real and in financial terms, in the least developed countries (with a fuller use of labour, higher savings rates, improved fiscal mechanisms, strengthened institutions for the mobilization of savings, etc.). However, it must also be recognized that these countries are highly dependent on subsistence agriculture and that their supply of skills is severely limited, their governmental administrations being only poorly endowed with highly trained people. This means that only limited results can be expected for quite some time in terms of mobilization of domestic resources, and that technical and financial assistance will be needed both to strengthen these efforts and to supplement them. Indeed, in supplementing these efforts assistance in the form of budgetary support may be especially important.

11. Clearly, from the point of view of the international community, extraordinary efforts will be needed, in terms of both strengthened commercial policy measures and increased financial and technical assistance flows, if the sharply increased import capacity that will be needed to improve economic and social welfare and to sustain more rapid growth is to be achieved.

### C. Financial and technical assistance measures[6]

12. The Conference should seek to ensure that:

(*a*) Far larger flows of technical and financial assistance, applied under far more flexible norms than in the past, are made available to the least developed countries (see paras. 13-34 below);

(*b*) These flows, wherever possible, are in the form of grants and that outstanding bilateral official development assistance loans are converted to grants (see para. 24, below);

(*c*) Effective steps are taken to provide at least an adequate minimum flow to each of the least developed countries (see para. 21 below);

(*d*) Effective steps are taken to seek agreement between donor agencies and the least developed countries on a global plan for a much more rapid increase in growth and welfare in these countries, based on a longer-term assurance of far larger assistance flows (see para. 65 below).

#### 1. *Over-all requirements*

13. From the examination of the growth potential of the least developed countries in such key areas as agriculture and mineral resources[7] and from the study of the

[6] See also TD/B/AC.17/3 (part III) (Financial and technical assistance measures), and the statistical annex below.

[7] See the report by the UNCTAD secretariat entitled "Agriculture, natural resources and industry in the least developed countries: some indications of potential" (TD/B/AC.17/4).

major constraints on development facing the least developed countries,[8] it can be seen that many of these countries have considerable untapped resources which can contribute to their growth, at least in the longer run, and that all of them, being highly dependent on agriculture and suffering from very low productivity in the agricultural sector, can benefit substantially, even in the short and medium term, from concerted efforts to improve their agricultural output. The realization of such potential will require strong efforts in mobilizing internal skills and resources, but will inevitably also require the parallel mobilization of external technical and financial assistance efforts. Indeed, study of the long series of constraints on development, which most acutely affect the least developed countries, suggests that far greater technical and financial assistance flows, applied under far more flexible norms than in the past, are necessary if these constraints are to be overcome (or temporarily bypassed while longer-term solutions are worked out).

14. The problem is further aggravated by the immediate and urgent need for expanded assistance flows to maintain even the past inadequate levels of imports, in the face of the current collapse in the purchasing power of exports in many of these countries. Indeed, 22 of the least developed countries are on the list of the most seriously affected countries established for the purposes of the United Nations Emergency Operation undertaken in pursuance of section X, paragraph 2, of General Assembly resolution 3202 (S-VI).

15. Since the prices developing countries have had to pay for their imports doubled between 1970 and 1975, and since inflation continues apace, the prospects for a further erosion of the purchasing power of aid commitments remain strong. Regular adjustments in aid programmes which will fully offset this erosion are urgently needed.

### 2. *Sources of assistance*

16. The International Development Strategy for the Second United Nations Development Decade[9] calls for the developed countries to provide a major part of financial resource transfer to the developing countries in the form of official development assistance, and for such flows to reach a minimum net amount of 0.7 per cent of GNP at market prices. If member States of the Development Assistance Committee of OECD, as a group, had achieved this target in 1974, official development assistance flows to the least developed countries (assuming the maintenance of their current share of these flows) would have reached approximately $3,350 million. The actual net flow of official development assistance received from the DAC countries and from multilateral institutions was $1,670 million, or only half the hypothetical total.

17. Official development assistance from DAC member countries and multilateral institutions remains the largest source of total financing flows to the least developed countries (67 per cent in 1974). In view of the importance of assistance on the softest possible terms, the Conference should not only seek to put an end to the stagnation and halt the recent decline in these flows in real terms, but should also seek ways of realizing the extremely important potential for the least developed countries represented by the target of 0.7 per cent of GNP for such flows, particularly if the additional amount described in paragraph 16 above could be made immediately available to the least developed countries as a matter of first priority.

18. In the light of both the longer-term development needs and the immediate emergency, action should be called for on the part of all present major donors – DAC member countries, multilateral agencies, socialist countries of Eastern Europe, the People's Republic of China, and OPEC members – to expand the real volume of assistance to least developed countries. While 22 per cent of 1974 IDA commitments and 26 per cent of UNDP country programme funds for the next programming cycle are being directed to the 25 least developed countries originally designated, commitments of official development assistance by DAC countries and multilateral agencies to these countries were 9 per cent of the total in 1973. Several member countries of OPEC made substantial assistance commitments in 1974, with disbursements to the 29 least developed countries estimated at $657 million in that year (including funds channelled through the IMF oil facility). The Lomé Convention[10] provides for expanded resources for the European Development Fund, which to judge by past allocation standards, may increase flows to least developed countries by $100-$150 million per year over the next five years.

19. While the bulk of the additional assistance required will undoubtedly have to come from a general expansion of the flow of grants and concessional loans from the traditional major sources and from the newly launched programmes of the OPEC countries, steps should also be taken to expand flows from other sources, such as private grant programmes and voluntary agencies, private foreign investment suited to the development needs of the hard-core least developed countries, and the assistance programmes of other, more advanced developing countries. The Conference may also wish to consider what automatic transfers might be devised to take special account of the needs of the least developed countries. Of immediate interest are the arrangements being made for the use of part of the IMF gold reserves for development aid purposes, which could constitute a source of additional funds for those countries.

20. Also of immediate interest will be the possible role which already established or proposed special-purpose United Nations funds can play in attracting significant amounts of financial resources and in channelling an important part of them to the least developed countries, e.g. the Special Fund set up in pursuance of section X,

[8] See TD/B/AC.17/Misc.1.

[9] General Assembly resolution 2626 (XXV) of 24 October 1970.

[10] Convention between the European Economic Community and 46 African, Caribbean and Pacific States, signed at Lomé, Togo, on 28 February 1975 (see *Official Journal of the European Communities*, vol. 19, No. L.25, 30 January 1976).

paragraph 5, of General Assembly resolution 3202 (S-VI), the United Nations Capital Development Fund, the proposed special fund for the least developed countries, the International Fund for Agricultural Development, and the special fund for land-locked developing countries. If these funds are to be effective in attracting and using resources, it will be important to clarify the special role which each of them can perform.

### 3. *Ensuring an adequate minimum flow for each least developed country*

21. An issue of great practical importance is how to ensure more adequate flows of assistance to many of the least developed countries which have suffered from relative neglect and whose export earnings are also especially low. While the foreign exchange receipts *per capita* of the least developed countries are far lower on average than those of other developing countries, the hard-core least developed countries show a wide diversity of performance both in export earnings and in external assistance flows.[11] The Intergovernmental Group on the Least Developed Countries endorsed the principle that a minimum flow of assistance should be furnished to each least developed country at least equal to the average for all developing countries on a *per capita* basis. The seriousness of the problem can be seen from the fact that 11 of the least developed countries (containing more than two thirds of the total population of these countries) received less than this average in 1974 – and that this shortfall totalled about $700 million.[12] Since the policies of individual donor countries governing the allocation of assistance reflect a wide variety of historical ties and other special considerations often having little connexion with comparative needs or absorptive capacity, the Conference should seek to provide more effective means to ensure the fulfilment of at least this minimum standard for each least developed country.

### 4. *Criteria and procedures for financial and technical assistance*

22. While there has been a growing recognition that traditional criteria for financial and technical assistance are often quite inappropriate for the least developed countries, and that a far more flexible approach is needed, and while there is evidence of improvement in some of these respects,[13] many of the bilateral and multilateral donor agencies continue to impose a variety of burdensome procedures, policies, practices and conditions which act as serious constraints on the amount and the effectiveness of external assistance flows.

[11] See statistical annex below, table 10. See also TD/B/AC.17/3 (part III), paras. 9 and 10.

[12] Excluding direct private investment and Euro-currency borrowings received by developing countries.

[13] See TD/B/AC.17/3 (part III) and TD/B/AC.17/3 (part IV) (Further relevant activities in UNCTAD and in other international organizations).

23. Action is needed along the following lines:

(*a*) Traditional financial criteria concerning the minimum rate of return on projects need to be modified to take fully into account the longer-term social rate of return, including related secondary effects. It may be necessary to take greater risks and to recognize that to take a reasonable chance of a positive rate of return being obtainable in the long run is far better than doing nothing at all, and that comparison between rates of return in different countries is irrelevant, since the vital need is to ensure that the development process is launched in each of the hard-core least developed countries, even though this may mean investment and expenditure in ways, and with risks, that might be inappropriate in more advanced developing countries. Moreover, the nature of the expenditures required may often be justifiable only by criteria which go far beyond ordinary cost-benefit considerations, but which nevertheless are essential for the economic and social structural transformation of these countries.

(*b*) Full consideration should be given in appropriate cases to providing assistance, not only for immediately productive investment and longer-term investment in education, health and the social infrastructure, but also for consumption, in order to provide the minimum standards of human welfare necessary to achieve a more rapid development in these countries and to help to effect the necessary structural changes.

(*c*) Financial resources to provide and expand public services, including direct budgetary support, may be of particular importance for least developed countries, since at least an adequate minimum level of public services is indispensable for development, and since fiscal capacity is already severely stretched (see also para. 10 above).

(*d*) Local costs of capital projects should be financed to a substantial extent, particularly whenever the lack of adequate local financial resources imposes limits on the development effort, in order to help to provide urgently needed foreign exchange.

(*e*) It will often be desirable to arrange explicitly for the financing of recurring costs associated with on-going projects and with projects after their completion, including maintenance costs, during an appropriate phasing-out period, which in the case of the least developed countries may need to be fairly long. Indeed, in many cases a project might not be feasible at all without such arrangements.

(*f*) Local cost obligations for the least developed countries in connexion with technical assistance projects should be minimized.

(*g*) Assistance in the form of support for sectoral or general import programmes may be particularly appropriate for the least developed countries, given the precarious balance-of-payments position which almost all of them face and given the urgent need to maintain and expand imports both for development and for meeting minimum human welfare standards.

(*h*) More positive efforts by donor agencies are needed to help the least developed countries in identifying, planning and preparing both technical assistance and financial projects, in expediting the approval and implementation of projects, in carrying out feasibility and pre-investment surveys, and in post-implementation reviews. Techical assistance and training should be provided to enable the least developed countries, in keeping with their own development priorities and objectives, to negotiate more effectively with bilateral and multilateral donors and with sources of private foreign investment.

(*i*) In view of the special difficulties facing the least developed countries, every effort should be made to attract technical assistance personnel with special knowledge of conditions in these countries, and to speed up the procedures for recruitment and for project implementation, in order to ensure the quickest possible response to these countries' assistance needs.

(*j*) While it is recognized that provision for the training of counterpart local personnel in technical assistance projects is important where such personnel can be made available, any firm donor requirement for such counterparts should be waived in the case of least developed countries, in view of the special difficulties these countries frequently encounter in providing such personnel. Where such a requirement is insisted upon, the provision of urgently needed technical assistance is often seriously delayed or rendered impossible.

(*k*) In view of the shortage of entrepreneurial skills and know-how in the least developed countries, donors and recipients may often find it appropriate to make special arrangements for integrated financial and technical assistance projects, combining finance, know-how and management talent in a single package.

### 5. *Terms and conditions for financial and technical assistance*

24. In view of the fact that the least developed countries are likely to require very large amounts of assistance over a long period in order to accomplish the major structural transformations required in their economies, and that many of them are already heavily burdened with debt, it seems essential to provide particularly favourable terms and conditions for assistance. The Conference should therefore seek to ensure that:

(*a*) All future bilateral official development assistance to the least developed countries is provided in the form of grants;

(*b*) Multilateral financial agencies provide assistance to the least developed countries, where possible in the form of grants, and otherwie in the form of loans on terms at least as concessional as those granted by IDA;

(*c*) Developed countries, as part of their urgent measures to alleviate the debt problems of developing countries:

(i) Take immediate steps to convert all outstanding bilateral official development assistance loans to the least developed countries into grants;

(ii) Give immediate and favourable consideration to providing highly concessional terms of relief for other outstanding debt burdens of the least developed countries;

(*d*) Multilateral financial institutions endeavour to offset the burden of past loans, made on less-concessional terms, by means of refinancing loans, or similar devices, on highly concessional terms;

(*e*) Developed countries, as part of their efforts to eliminate all aid-tying provisions applying to assistance flows to developing countries generally, see to it that these barriers are immediately removed with respect to the least developed countries (see para. 60 below);

(*f*) Bilateral and multilateral assistance agencies make special efforts to provide firmer guarantees of the continuity of their assistance to the least developed countries over a longer period, in order to facilitate the planning efforts of these countries.

### 6. *Some priority areas for technical and financial assistance*

25. Some of the more significant priority areas requiring urgent attention in the least developed countries emphasize the need, repeatedly stressed above, for larger and more flexible flows of assistance to these countries.

26. Major new initiatives are called for with respect to rural development programmes designed to raise traditional subsistence agriculture to a more productive and technologically advanced level, with appropriate incentives for farmers, including land tenure reforms, adequate credit facilities, appropriate pricing policies for both farm products and farm inputs (such as pumps and fertilizers), better feeder roads, effective extension services, improved marketing arrangements, and the development of the necessary supporting institutions.

27. The careful selection of new and expanded manufacturing activities, closely integrated with agricultural development strategies, can play a vital role in supplying necessary farm inputs, in processing agricultural outputs, and in responding to the agricultural sector's increasing demand for consumer goods.

28. Greater efforts will be needed to reduce the disparities in the entire range of programmes and benefits reaching the more remote regions of the least developed countries as compared with those directed towards the more populous centres, through the assignment of higher priority to a more balance regional development in both governmental and external assistance programmes.

29. Improved internal and international transport and communication links have a major part to play both in fostering a better balanced regional development and in linking the local and national economy with the outside world.

30. Major modifications are required in many of the least developed countries in order to establish an efficient educational system, functionally oriented and more responsive to the requirements of development. Special efforts will be needed to strengthen skills at the intermediate level in government, agriculture and industry (e.g. at the level of the foremen in a factory).

31. Since the administrative systems of most of the least developed countries need to pursue for the purpose of modernization a range of objectives exceeding those countries' existing capabilities, their Governments may wish to seek expert advice in assessing their administrative capacities in priority fields, in order to identify areas for special attention and to suggest possible programmes of technical co-operation.

32. The least developed countries would benefit from greater economic co-operation with other developing countries in the context of "collective self-reliance". A policy of expanding relations with other developing countries would provide an additional source of economic growth, and external assistance in support of this would be useful (see also paras. 43-46 below).

33. Many of the above measures would have their main effect only in the medium and longer term. To provide immediate benefits, programmes embodying the following also need priority attention: (*a*) support for local small-scale, labour-intensive rural public works projects; (*b*) financial and commodity support for voluntary agency activities at the community level; (*c*) accelerated project feasibility studies in priority development sectors; (*d*) additional physical inputs in the agricultural sector to increase productivity, particularly in foodstuffs; (*e*) the encouragement of simple, small-scale agro-industrial activities based on locally produced agricultural products; and (*f*) the improvement of current nutritional, medical and health standards.

34. The measures in all these priority areas must aim at bringing about a structural transformation both in the short run and in the longer term, and foreign trade policies which assist and sustain that transformation will be urgently needed (see section G below).

## D. Commercial policy and related measures

35. The evidence of stagnating and declining real export earnings for most of the least developed countries, the low absolute level of these exports in *per capita* terms, and their overwhelming concentration on a few commodities, raises the question of what can be done to expand these countries' export earnings, and in particular the role which commercial policy measures can play. The existing internationally agreed measures taken by developed countries in the commercial policy field are non-discriminatory in their application to developing countries generally.[14] Other forms of special treatment for the least developed countries, within the framework of general policy measures on behalf of all developing countries, might be helpful in promoting the expansion of foreign-exchange earnings or the reduction of import costs, which these countries so urgently require.

[14] See TD/B/AC.17/3 (parts I and II).

### 1. *The integrated programme for commodities*[15]

36. The adoption of the UNCTAD integrated programme for commodities and the consequent stabilization of export prices at remunerative levels would in itself be expected to bring very substantial benefits to the least developed countries, given their heavy dependence on exports of primary commodities. The Conference should seek to ensure that these countries benefit fully from the programme, and, at the same time, that their financial contributions to the arrangements are kept as low as possible, and in line with their capabilities, in view of their extremely weak economic position.

*Commodity agreements*

37. Special allowance should be made for the needs of the least developed countries, in order that they may derive more substantial benefits from international action in the area of commodity agreements, for example in regard to the establishment of export or sales quotas in such agreements. New agreements should provide for exemption from quota restrictions for at least small producers among the least developed countries. Greater use should be made of such devices as basic quotas which would provide a substantial margin for expansion rather than merely reflect traditional market shares. Such measures might also include exemption from the obligation to share the financial costs and risks involved in the maintenance of stocks.[16]

*Favourable treatment for essential imports*

38. The Conference may also wish to consider what could be done to assist the least developed countries as importers of essential commodities which are governed by international agreements or for which agreements might be formulated. This might involve sales to these countries on concessional terms, either directly by exporters or from international buffer stocks.[17]

*Compensatory financing agreements*

39. Multilateral arrangements, such as the IMF compensatory financing arrangements for export shortfalls, should provide for less exacting requirements for economically weaker developing countries, and particularly the least developed countries.

### 2. *Tariff and non-tariff barriers*

40. Although the least developed countries in general face relatively few obstacles to trade, given the present composition of their exports,[18] a programme for enhancing their export potential through diversification quickly faces

[15] See document TD/184 above.

[16] See the report by the Secretary-General of UNCTAD entitled "Specific proposals for decision and action by Governments" (TD/B/C.1/193), para. 10.

[17] *Ibid.*, para. 9.

[18] See TD/B/AC.17/3 (parts I and II), paras. 20-26.

a number of barriers, both tariff and non-tariff. This is particularly true of efforts to embark on the processing of primary commodities for export, such as food and fibres.

41. With regard to the generalized system of preferences, a number of initiatives have been stressed in the work of the Special Committee on Preferences,[19] but in general these countries still derive very limited benefits from the schemes.[20] In the case of the new preferential arrangements under the Lomé Convention accorded by the countries of the European Economic Community to the African, Caribbean and Pacific countries, it should be noted that these 46 countries include 19 of the 29 hard-core least developed countries.[21]

42. The Tokyo Declaration,[22] which initiated the current round of multilateral trade negotiations, stated (para. 6):

> The Ministers recognize that the particular situation and problems of the least developed among the developing countries shall be given special attention, and stress the need to ensure that these countries receive special treatment in the context of any general or specific measures taken in favour of the developing countries during the negotiations.

No specific action has yet been taken to implement this paragraph of the Tokyo Declaration.[23]

### E. Economic co-operation among developing countries

43. As is indicated in the report by the UNCTAD secretariat on economic co-operation among developing countries,[24] a third-world preference scheme should make provision for the special situation of the least developed countries, special preferential concessions being granted for the exports of the relatively less advanced countries, taking into account the special circumstances of each particular case, and these concessions should be linked to more active measures in the fields of production and finance.

44. As has already been noted (see para. 32 above), greater economic co-operation among developing countries could yield substantial benefits for the least developed countries and this should be a priority area for technical and financial assistance to these countries. Such efforts should aim at the expansion of trade and economic co-operation arrangements with other developing countries interregionally and regionally, as well as within existing or new subregional economic integration schemes.

45. Within regional integration schemes in which the least developed countries participate, there are a number of special measures which might be taken by the more advanced participating countries to promote a more rapid development of the least developed countries. These include arrangements for preferential treatment of the exports of those countries, the allocation of higher financial resources by the regional development banks, and the promotion and protection of specific industrial projects in the least developed countries. Bilateral and multilateral assistance for such arrangements should be encouraged.

46. The financially stronger developing countries are already providing considerable financial assistance to the least developed countries (see paras. 18 and 19 above), and efforts to expand these flows will be of great importance. Many of the more advanced developing countries (which themselves face serious balance-of-payments problems) have substantial capacity for the provision of expert technical assistance personnel with extensive practical experience in techniques particularly suitable to the actual situations facing the least developed countries and of a wide variety of goods and services, and efforts to expand these flows should be supported. Increased flows of technical assistance and goods from these more advanced developing countries to the least developed countries should be encouraged through special arrangements (by international agencies, developed countries, or the financially stronger developing countries) to offset the added burden of foreign-exchange costs associated with such flows.

### F. Other special measures

47. The Conference should reaffirm the need for special attention to be devoted to the problems of the least developed countries in other special areas of UNCTAD interest, such as shipping and ports, insurance, the transfer of technology, restrictive business practices, trade facilitation, trade promotion, and trade with socialist countries. In view of their particularly weak physical and administrative infrastructure in all these areas, the special attention required includes:

(*a*) The study of the particularly difficult problems faced by the least developed countries in each of these areas;

(*b*) The urgent provision of technical and financial assistance adapted to the especially difficult situation of these countries, including the establishment of appropriate institutions;

(*c*) Adjustments to general policy measures to take special account of these difficulties.

Many of these measures will be essential ingredients in the integrated approach to the expansion of trade for these countries (see paras. 55 and 59 below).

#### 1. *Shipping and ports*

48. As far as shipping is concerned, the least developed countries are particularly vulnerable to high costs and

[19] *Ibid.*, paras. 49-67.

[20] See also the report by the UNCTAD secretariat on the effects of the GSP on the least developed among the developing countries (TD/B/C.5/39).

[21] With regard to possible preferential arrangements by the more advanced developing countries, see para. 43 below. See also TD/B/AC.17/3 (part II), para. 55, with reference to proposals made by Norway and Yugoslavia in this connexion.

[22] Declaration of Ministers, approved at Tokyo on 14 September 1973 (for the text, see GATT, *Basic Instruments and Selected Documents, Twentieth Supplement* (Sales No. GATT/1974-1), p. 19.

[23] See document TD/187 above, chap. III, C.

[24] Documents TD/192 and TD/192/Supp.1 below. See also TD/192/Supp.2.

delays, because of the relatively small scale of their trade. Their ability to obtain promotional freight rates will often be a crucial element in efforts to expand existing exports or to develop new export products. Port congestion is a further very serious problem, imposing heavy financial losses on account of demurrage payments and failure to meet delivery dates on exports and imports. These problems are often even more acute for the land-locked least developed countries.

### 2. *Insurance*

49. The characteristically complete dependence of the least developed countries on the purchase of insurance services abroad results in a considerable outflow of foreign exchange, so that efforts to create local insurance markets would be of significant benefit to them.

### 3. *Transfer of technology*

50. The position of the least developed countries is particularly weak with regard to technological information and the appropriate choice of technologies suited to their difficult economic conditions, and with regard to their ability to negotiate effectively for the especially preferential terms and conditions which they require.[25]

### 4. *Restrictive business practices*

51. Restrictive business practices could seriously hamper any efforts to expand the foreign trade of the least developed countries. These countries would, therefore, benefit from studies in depth of the impact of such practices on their present and potential trade.[26]

### 5. *Trade facilitation*

52. Non-tariff barriers in the form of complicated formalities, unwieldy procedures and cumbersome documentation often present particularly severe problems for the least developed countries, and especially for those that are land-locked. For them, continued efforts to simplify formalities and procedures and to standardize documents are important in the expansion of trade and the reduction of costs.

### 6. *Trade promotion*

53. As part of the integrated effort needed to expand and diversify the production base of the least developed countries and to open up new export markets for their products or to enlarge existing ones, export promotion services, carefully adapted to the special situation of each of these countries, will continue to be of marked importance. Efforts by developed countries to assist the expansion of their imports from the least developed countries, through such devices as trade fairs, import promotion campaigns, the exchange of trade missions and the establishment of direct business contacts, should be greatly increased (see paras. 56-61 above).

### 7. *Trade with socialist countries of Eastern Europe*

54. The socialist countries of Eastern Europe already have significant assistance and economic co-operation arrangements with many of the least developed countries. However, (*a*) there is considerable scope for broadening these arrangements to include many others of the least developed countries; (*b*) there is considerable latitude for expansion of the purchase of raw materials from the hard-core least developed countries, and the possibility of the expansion of other imports on a preferential basis could be quite significant also; (*c*) the possibilities for the further multilateralization of payments and for other multilateral arrangements to broaden trade are also considerable, and (*d*) there is an urgent need for larger flows of financial and technical assistance, on the softest possible terms, and with the application of more flexible criteria and conditions (see paras. 22-24 above).

## G. *A broad integrated approach to strengthening the foreign trade sector*

55. In view of the failure of the least developed countries in general to expand their real export earnings in recent years, or to reduce their dependence on imports of food and other essentials through expanded domestic output, and in view of the importance of achieving a larger command over foreign-exchange resources if development goals are to be met, a higher priority for all elements of a broad integrated approach to export expansion seems essential, and it should be paralleled by co-ordinated efforts at effective import substitution (in the first place, the achievement of self-sufficiency in food sypply, where possible) and by strong efforts to carry out a programme of import cost-reduction measures (see para. 62 above). This integrated approach will require, *inter alia*, efforts to increase access to markets, and financial and technical assistance for the purposes of improving planning and policies for the foreign trade sector, creating more adequate supporting institutions, and expanding and diversifying output, in order (*a*) to meet growing domestic requirements, (*b*) to ensure economical substitution of domestic production for imports, (*c*) to ensure expanded export earnings, (*d*) to reduce the impact of fluctuations in earnings by the diversification of export products and markets, and (*e*) to lower the real cost of imports by adopting a wide range of policy measures, including improved procurement arrangements. An expanded programme of this kind of technical and financial assistance in

[25] See document TD/190 above.

[26] See documents TD/185 and TD/185/Supp.2 above.

UNCTAD[27] and in other multilateral and bilateral agencies is already in preparation, but greater efforts and support will be needed.

### 1. *Export expansion measures*

56. As indicated repeatedly above, far more intensive efforts are needed if the present decline in real export earnings *per capita* is to be reversed for the least developed countries. Therefore, a thorough review of the studies carried out on export potential, policies, financing and institutions should be undertaken, special emphasis being placed on new approaches that might help to solve this problem. Among possible new initiatives, the following should be explored.

*Long-term sales guarantees*

57. Governments, international institutions and even private commercial enterprises (especially large ones) might wish to consider purchasing some of their supplies from the least developed countries as a matter of deliberate policy. A readiness to take such action might lead to a broader policy of giving to the least developed countries long-term guarantees of a reasonable level of sales. Such guarantees, on the part of both the developed market-economy and the socialist countries, might be provided by the conclusion of long-term supply contracts, with appropriate financial and technical assistance to help the least developed countries to fulfil them. UNCTAD should explore ways of facilitating such guarantee arrangements.

*Import promotion and financing corporations*

58. The possibilities should be explored of establishing import promotion and financing corporations in the developed countries, specifically designed to promote the sale of products of the least developed countries, including the development, by the developed countries concerned, of suitable guarantee arrangements to offset part of the risks of such trade. Alternatively, institutions of this type might be multilateral in nature, on the lines of the International Finance Corporation, and in addition to promoting the sale of present and new products from the least developed countries, might finance private investors or subcontractors in those countries to help to ensure the quality and stability of production for export to developed countries.

[27] The present and planned activities of UNCTAD in the field of technical assistance on behalf of the least developed countries are described in some detail in document TD/B/AC.17/3(part IV). The results of some of the recent analytical studies and surveys on the problems of the least developed countries are contained in the various documents submitted to the Intergovernmental Group on the Least Developed Countries at its first session (see TD/B/AC.17/3, TD/B/AC.17/4 and TD/B/AC.17/Misc.1). The directions in which future UNCTAD work in these areas should evolve are described in paragraph 52 of the report by the UNCTAD secretariat entitled "Issues for consideration by the Intergovernmental Group" (TD/B/AC.17/2).

*Measures to facilitate an integrated vertical approach to export expansion*

59. Studies are needed of ways to bring about an integrated vertical approach for expanding the exports of the least developed countries, which would involve co-ordinated efforts ranging from the planning and production stage in the least developed countries to the stage of ensuring sales of their products in the developed countries. This could involve "package" projects for which a single donor agency attempts to provide finance or technical assistance to overcome all the problems related to a particular export product, or it could involve co-ordination by several donor institutions to the same end.

60. In connexion with specific projects to assist one or other of the least developed countries to expand production or to take up new processing for export, the assurance of access to export markets could be of great practical value. It might prove feasible and indeed particularly useful to negotiate bilaterally specific enlargements of quota or exemptions from quotas or other trade barriers with respect to a particular product or particular products of interest to certain of the least developed countries, as part of a specific "package" project. The development of other imaginative bilateral arrangements to encourage production and ensure market access for exports should be encouraged (and where aid tying is a necessary part of such arrangements, this should constitute an exception to the recommendation in paragraph 24 (*e*) above).

*Country meetings on trade bottlenecks*

61. It would be useful to explore the possibility of organizing meetings on the commercial policy problems of specific least developed countries or of small closely-related groups of such countries, with the participation of appropriate government officials from those countries and from developed countries, together with representatives of commercial importers or State-trading companies in the developed countries and of principal exporters in the least developed countries concerned. Such meetings could encourage projects to promote production and exports from the least developed countries, and at the same time might discover possible ways of overcoming existing governmental or non-official trade barriers.

### 2. *Import cost-reduction measures*

62. The possibilities of making very substantial savings on the import costs of the least developed countries through cost-reducing policies, better procurement techniques and new institutional arrangements may be great, but these countries face particularly severe difficulties in realizing such savings. The dimensions of this problem and the possible solutions should be carefully examined in order to determine what further action is needed in this still largely unexplored area. Studies should include an examination of the adequacy of existing institutional arrangements at the national, regional and global levels to ensure efficient procurement of imports by the least developed countries at the minimum cost. The aim should be to establish more

effective procurement advisory services for the least developed countries which would secure substantial savings on import costs and thus increase their foreign-exchange availabilities.

### H. Co-ordination arrangements

63. Improved co-ordination in financial and technical assistance, as well as in broader areas calling for special measures, can bring substantial benefits to the least developed countries. The problem of co-ordination arises at several levels and a number of different mechanisms will prove useful and complementary.

64. The Intergovernmental Group on the Least Developed Countries itself provides a central organ devoted solely to the problems of this special group of countries, and the Group has been reconvened for a second session, now tentatively scheduled for mid-1977. At its first session in July 1975, it endorsed various proposals in the field of co-ordination, including a proposal for specific country or regional co-ordination meetings in co-operation with UNDP (see the Group's resolution 2, para. 5[28]), and with the support, where appropriate, of multisectoral teams. The Group also called (resolution 2, para. 6) for the creation of appropriate mechanisms by the United Nations Administrative Committee on Co-ordination to review and co-ordinate, at the highest level, the action and programmes of the United Nations system on behalf of the least developed countries.

65. Combined meetings of donors and recipients for the benefit of the least developed countries constitute another important co-ordination technique. Given the difficult problems and special needs of these countries and their general lack of effective economic progress, it would be useful to convene an early meeting between representatives of multilateral and bilateral technical and financial assistance agencies on the one hand, and representatives of all the least developed countries themselves on the other. The Intergovernmental Group on the Least Developed Countries, in paragraph 4 of its resolution 2, requested the Secretary-General of UNCTAD to explore the possibility of convening meetings of this type, and discussions with UNDP, other donor agencies and recipients on this question are continuing.[29] The topics for discussion at such meetings would include the following:

(*a*) A general review and assessment of the requirements of the least developed countries, and the adequacy of present and prospective flows of financial and technical assistance resources to meet them;

(*b*) The least developed countries' own assessment of the priorities for an expanded flow of assistance;

(*c*) A review of the progress and the problems, from both the donors, and the recipients' points of view, in the co-ordination and implementation of assistance programmes for the least developed countries;

(*d*) The possibilities of the adoption of more flexible criteria for assistance, more responsive to the needs of the least developed countries and providing a more effective use of available resources;

(*e*) Discussion of specific steps which might be taken to ensure that at least a minimum flow of assistance is provided to each of the least developed countries, and thus to overcome the relative neglect which many of them have faced in the past;

(*f*) As a broader aim, consideration of the kind of global action plan needed for a much more rapid increase in growth and welfare in the least developed countries;

(*g*) In the light of the results of the discussion of the above topics, proposals for further meetings of this type should be considered, with the possibility of exploring more specific themes.

66. There is also the need for strengthening existing arrangements for the on-the-spot co-ordination of the operations of assistance agencies in certain of the least developed countries. Furthermore, technical assistance should be furnished to individual countries to help them to build more effective co-ordination mechanisms for assistance programmes, involving arrangements within the government structure to expedite the processing of assistance projects, strengthen the technical knowledge of assistance agency operations, and help to prepare assistance programmes for discussion with donors.

## CHAPTER II

## *Special measures related to the particular needs of the land-locked developing countries*

67. Land-locked developing countries are generally among the very poorest of the developing countries. The lack of territorial access to the sea, compounded by remoteness and isolation from world markets, appears to be an important cause of their relative poverty, and constitutes a major obstacle to their development. Indeed, all but four of the 20 land-locked developing countries are on the list of countries identified by the United Nations as the least developed.[30]

68. Many land-locked developing countries will no doubt benefit from special measures in favour of the least developed countries and also from general measures for all developing countries. However, the land-locked countries also urgently need special measures to be taken to mitigate their geographical handicaps, and in particular measures to reduce as much as possible the real transit costs which they face. Serious efforts to accomplish this will open up a vast

[28] *Official Records of the Trade and Development Board, Fifteenth Session, first part, Annexes,* agenda item 7, document TD/B/577, annex I.

[29] A recent meeting of this kind, organized by UNESCO to deal specifically with the education sector, was highly successful (meeting of senior officials of the Ministries of Education of the 25 least developed countries, Paris, 8-16 September 1975). The time is ripe for a broader meeting to deal with the role of aid and technical assistance in all aspects of the economic and social development of these countries.

[30] For data on the land-locked developing countries, see the statistical annex below.

array of possibilities for the effective use of financial and technical assistance for the benefit of the land-locked countries, but major new capital investments in transport and port facilities in the transit countries will be called for, and also technical assistance towards the improvement of the operation of such facilities. The innovations required include not only a new infrastructure, but also improved procedures and regulations, better maintenance and more effective management, so that the real costs of transit can be substantially reduced and delays and uncertainties minimized. Indeed, the potential reduction in the real costs of transit transport to be derived from a concerted programme of improvements designed to meet each transit situation may be quite large.[31]

69. Land-locked countries, acting alone, will not be able to improve the transit facilities and procedures required for their trade; they are dependent on the action of their transit neighbours. The basic problem which underlies all transit difficulties is the need for improvements in the operation of existing transit facilities, and for the financing and construction of urgently needed new facilities which will be to the benefit of the land-locked countries but are physically located outside the area of their jurisdiction, in a coastal or transit country. It is essential that transit investment and improvement projects should *(a)* not be a burden to the transit country, *(b)* offer some advantages to that country, and *(c)* improve transit services and reduce transit costs for the land-locked country. Until such time as substantial new investment and technical assistance are forthcoming to meet these standards, only marginal improvements in transit costs will be possible. The international community has only just begun to give serious consideration to this fundamental question.

70. A foundation for further progress in the efforts to assist the land-locked developing countries was laid with the adoption of a programme of action in favour of these countries at the third session of the Conference (resolution 63 (III)[32]). Important developments since then include the publication of the report of the Expert Group on the Transport Infrastructure for Land-locked Developing Countries;[33] Trade and Development Board resolution 109 (XIV), which calls for positive action on the recommendations of the Expert Group; a growing programme of technical asistance designed to alleviate the transit transport problems of the land-locked countries;[34] secretariat studies of the transit problems and costs of the land-locked developing countries and of the desirability and feasibility of a special fund in favour of these countries;[35] and the decision of the General Assembly in its resolution 3504 (XXX) "to establish immediately a special fund for the land-locked developing countries to compensate for their additional transport and transit costs". The studies referred to here have made quite clear the nature of the handicaps facing the land-locked developing countries and the specific national and international measures needed to help to solve these problems.

71. Although international assistance will be essential to improve the transit situation, the action called for requires, as a fundamental prerequisite, bilateral understandings between each land-locked country and its transit neighbours, and international assistance and support for improvement can only take place where there is a willingness by both partners to these understandings to seek improvements and to use the financial and technical assistance resources of the international community in support of this purpose.

72. Given this essential co-operation at the bilateral level, the situation is ripe for the application of a broad series of measures to alleviate the transit problems facing the land-locked developing countries. This would require:

*(a)* More effective planning efforts to help to reduce transit costs through closer co-operation between land-locked countries and their transit neighbours (for example, by the creation of bilateral joint transit planning councils), through expert planning assistance and specialized studies, and through full support from donor institutions for the new investment and technical assistance projects generated (see paras. 73-77 and 91-96 below);

*(b)* Larger flows of financial and technical assistance, on highly concessional terms, in support of specific priority sectors and aimed at reducing transit costs and restructuring the economies of land-locked developing countries in order to mitigate their geographical handicaps (see paras. 78-90 below).

### A. Planning requirements

#### 1. *Integrated planning for specific transit situations*

73. Action to improve transit facilities will need to be taken jointly by land-locked and transit countries, and the Conference should seek ways to encourage and support joint planning efforts. An integrated planning approach to each specific transit situation should aim to ensure that all the possibilities for improving a particular transit route can be considered together, and that each of the transit routes available to a particular land-locked country can be evaluated in order to determine the best options for future progress.[36]

74. For this purpose, it is suggested that a particular land-locked country might arrange with each of its transit

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[31] See the report of the Secretary-General on special measures related to the particular needs of the land-locked developing countries (A/10203), particularly paras. 131-140.

[32] Work on the implementation of Conference resolution 63 (III) is described in the following documents: A/10203, E/5501, TD/B/453, TD/B/501, TD/B/501/Add.1, TD/B/511, TD/B/511/Add.1, TD/B/522, TD/B/568 and *A transport strategy for land-locked developing countries* (United Nations publication, Sales No. E.74.II.D.5).

[33] *A transport strategy for land-locked developing countries (op. cit.).*

[34] For details, see TD/B/568.

[35] See A/10203 and E/5501.

[36] See A/10203, paras. 90-93 and paras. 105-109, and *A transport strategy for land-locked developing countries (op. cit.).*

neighbours to establish a joint transit planning council or commission on a bilateral basis. This body would supervise the necessary background studies and bring them to the attention of decision-makers in their respective Governments and in international financing agencies, with the aim of establishing the necessary financial and technical assistance projects, procedural and managerial changes, etc., needed to improve each transit situation. Technical assistance from international agencies to support such joint transit councils by providing the necessary professional planning skills would be of the highest priority. Ideally, such a planning team might be most effective if it also included senior staff detached from each of the Governments concerned.

75. The active participation of international financing agencies in the preparation and evaluation of these background planning studies might be expected to be one of the most effective ways of ensuring an adequate follow-up by the international community in terms of the necessary financing for the proposals generated. The technique proposed might go a long way towards filling what is now a major gap – namely, the inability of the land-locked country, acting alone, to obtain the necessary information and support for investment and technical assistance, so as to secure an improvement in transit operations carried out for its benefit but in another country. At the same time, it would enable transit countries to consider the requirements of their land-locked neighbours with the high priority they deserve and with the assurance that the burden of costs was borne by the beneficiary country with the full support of the international community.

76. These planning efforts should be started on a trial basis with the limited initial objective of preparing an inventory of existing transit facilities and procedures, with a view to assessing the costs and problems involved and suggesting possible solutions. If these initial efforts were successful, a series of further steps would follow, involving specific feasibility studies and projects. In the longer run, the aim should be to make these joint transit councils, together with a professional planning staff, a powerful means for ensuring improvements in transit on a continuing basis.

### 2. *Regional transport planning*

77. On a broader regional basis, the land-locked developing countries can derive substantial longer-term benefits from efforts to improve regional transport planning. Projects for this purpose should be established or strengthened through technical assistance support. Such projects should involve the preparation of co-ordinated regional transport plans covering all modes of transport within the principal regions of Africa, Asia and Latin America. The objective would be to bring together a skilled professional staff having sufficiently long-term appointments and the resources and facilities necessary to undertake the in-depth studies required for the preparation of balanced, technically co-ordinated and politically acceptable regional transport development plans.

## B. Specific priority areas for financial and technical assistance[37]

### 1. *Road transport*

78. To solve the problem of transit transport, roads will have to be built and maintained in the land-locked country and in the territory of its transit neighbour, and linked with each other. Vehicles will have to be purchased and maintained. Furthermore, an agreement between the two countries will be essential for greater freedom in the interstate movement of commercial road transport vehicles. Such arrangements should aim to ensure through transport routes from the transit port to commercial centres in the land-locked country for heavy vehicles carrying goods in transit, and reduce the cost of transport by avoiding unnecessary cargo transfers. Practical technical assistance is needed for improving and harmonizing operations, technical standards and the public regulation of road transport operations on specific transit routes of particular land-locked countries.

### 2. *Rail transport*

79. The railways of the transit country should be extended, where possible, to the border and then into the inland country, in order to eliminate the need for transshipment en route, and thus to reduce transit costs. The long-term objective should be the creation of a railway network based on the smallest practical number of route kilometres, with at least one line crossing the frontier of every country, and closely co-ordinated with trunk road network plans to avoid wasteful duplication of capacity. The first step needed is the preparation of a basic railway network plan to provide a foundation for future national and international railway planning and development. There must be agreement on the harmonization of technical standards, on regional and bilateral rail transit treaties necessary to establish uniform documentation and procedures, and on managerial mechanisms. There must also be some arrangement whereby the initial capital and possibly subsidy requirements for the international links can be met from international financial sources, on necessarily concessional terms. In the meantime, with respect to the existing railways serving the transit needs of land-locked countries, technical assistance is required in a number of areas for the purpose of reducing costs, improving service and reviewing pricing practices and policies.

### 3. *Port facilities*

80. Most ports used by the land-locked countries are congested. This situation can be improved by providing the land-locked countries with adequate space for the construction of transit warehouses for the assembly and consolidation of exports, and also to hold imports pending the

[37] Based mainly on A/10203, paras. 112-127.

completion of formalities and the availability of transport. This space should be sufficiently removed from the active port area to permit secure long-term storage without interference with port operation. It must be provided with an integrated transport system which will give fast and low-cost transfer to and from ship-berthing areas, and there must be easy access to and from main inland transport routes. Congestion at the port can be further reduced if imports in transit are moved directly from the port to the railheads and arrangements are made to clear Customs formalities at the railheads.

81. Closely related to such requirements is the need to develop arrangements whereby the land-locked country can share financial and managerial responsibility for those port facilities of which it is the primary user.

82. Most inland countries are in need of expanded, improved and in some cases lower-cost storage facilities at the principal ports used by them. Technical assistance should support specific studies to be undertaken at individual ports for the purpose of identifying the needs of the land-locked country, and preparing plans for improvement which will be beneficial to the over-all operation of the port.

83. Technical assistance in port operations, with emphasis on action which can be taken by the land-locked countries for the purpose of reducing costs and improving the movement of their goods through ports, is also needed. This can include assistance in preparing alternative arrangements for sharing port investment and management with the coastal countries.

### 4. *Air transport*

84. The transit problems facing land-locked countries can be partially solved by air transport. Air transport can be used economically, for example, for the carriage of low-bulk high-value goods. Each land-locked country ought therefore to establish a fully equipped international airport.

85. No single land-locked developing country has sufficient traffic potential to justify the acquisition of the specialized kind of cargo aircraft required, and to keep such aircraft employed at full capacity to achieve the low costs desired. Therefore, the effective use of air transport to reduce transit costs and expand export trade will usually require co-operative efforts by several countries working together. Interested land-locked countries, in co-operation with other countries, might consider creating a co-operative air transport development project based upon a central organization which could undertake the necessary planning studies with appropriate technical assistance support.

### 5. *Communications*

86. There can be few areas where immediate action can bring as large and as prompt an improvement in transit services and costs as that of communications. The most pressing requirement is for fast and reliable communication links between the port areas and commercial centres within the land-locked country, and between the port and principal overseas markets. A first step, which should be supported by appropriate technical assistance, is the preparation of an inventory of the facilities and services needed to meet transit requirements, in order to assist in devising means of utilizing existing facilities more effectively, developing alternative communication routes and/or services, and identifying potential new communication projects for international support.

### 6. *Insurance*

87. The land-locked countries and their transit operations would benefit from having access to local or regional sources of insurance which could provide coverage for transit operations and, when necessary, transit Customs insurance bonds. It would be in the interest of the land-locked countries if they assisted in the creation of regional or subregional reinsurance networks which could work with domestic insurance organizations to meet this need. Technical assistance in insurance, for the purpose of identifying the special insurance requirements for transit operations and formulating possible methods of improvement, might be useful. Attention should be directed to strengthening local and regional insurance resources and capabilities.[38]

### 7. *Documents and procedures*

88. Cumbersome formalities, procedures and documentation are especially harmful to transit trade. The application of international standards of simplification and harmonization to the formalities and procedures relating to transit would assist in reducing transit expenses. Documentation and procedures are usually administratively controlled, and in order to bring about improvements, only a willingness to act and some relatively simple and easily obtainable technical knowlege are required. Further, the land-locked countries themselves exercise control over some of the formalities in question. These countries should avail themselves of existing technical assistance facilities for improving documentation and procedures. Technical assistance should also be provided for evaluating the desirability of acceding to existing transport and transit conventions.

### 8. *Restructuring of the economy*

89. Special geographical handicaps facing the land-locked developing countries can be partly offset in the long run by the restructuring of their economies, and this should be a major objective of technical and financial assistance. For example, it would be worth while for these countries to explore the possibility of establishing import substitution industries for the production of high-bulk low-value goods.

[38] The UNCTAD secretariat has been requested by the Committee on Invisibles and Financing related to Trade to prepare, for its eighth session, a study on transport insurance problems, including particularly the problems facing land-locked countries.

This would reduce their dependence on transit and save them from incurring high transport costs for their imports of these goods from other countries. In addition, the development of export industries producing high-value low-bulk goods should receive high priority. As the price-freight ratio of these goods is very high, they might be able to incur high transport costs without jeopardizing their competitive position in the international market. For this purpose, the land-locked developing countries would need technical and financial assistance from international organizations and financial institutions.

### 9. *Terms and criteria for financial assistance*

90. Because of relative poverty and development handicaps, it is important that the terms and conditions for financial assistance in the priority areas noted above and aimed at reducing the transit transport costs facing land-locked developing countries should be highly concessional; similar assistance to the transit countries for the creation of transit facilities should also be provided on the most concessional terms possible. Criteria for the evaluation of these assistance projects should be made more flexible, so as to correspond to the especially difficult circumstances in these countries.

## C. Studies and technical assistance in support of improved transit planning efforts

### 1. *Pilot costing studies*

91. Analysis of the transit problems of the land-locked developing countries has shown that one of the most powerful planning methods for contributing to improvements in specific transit routes is the process of obtaining far more accurate and comprehensive estimates of all the elements affecting transit costs, both direct and indirect. Studies of this kind in the past have been quite inadequate (*a*) for the allocation of costs and benefits as between the transit country and the land-locked country, (*b*) for the assessment of the relative costs of alternative routes available to a particular land-locked country, and (*c*) for the assessment of the relative costs and benefits of improvements in procedures and management as against investment in new infrastructure. All these aspects need to be examined if the objective of reducing the real cost of transit transport in the most efficient manner is to be achieved. Studies of this kind would not only help to clarify the issues as between a particular land-locked country and a particular transit neighbour, but would also be invaluable in identifying and justifying specific financial and technical assistance projects. Nevertheless, therer are unique difficulties in analysing the costs and benefits in various transit situations. In order to assess the technical and conceptual problems involved in making such studies and to develop an adequate methodology, it would be useful to undertake a limited number of pilot costing studies of particular transit routes. Such pilot studies would reveal much more clearly the magnitude of the transit transport problems of the land-locked developing countries, and prepare the way for the more routine use of the techniques developed as part of technical assistance support for particular transit route planning projects.

### 2. *Basic information, analyses, guidelines and models to assist land-locked and transit countries in reaching agreements on transit improvements*

92. The UNCTAD secretariat is continuing its comparative studies of port and transit procedures and facilities in different transit situations affecting land-locked countries, as called for in paragraph 12 of resolution 63 (III).[39] This work will also produce information on existing bilateral and multilateral transit and transport agreements, as well as suggestions concerning model regional and subregional agreements which individual countries can adapt to their own use, but which adhere to certain basic documentary, procedural and technical standards and can provide acceptable international financial guarantees.

93. On the suggestion of the UNCTAD secretariat, the Permanent Technical Committee of the Customs Co-operation Council had decided to include in its programme of future work the possibility of preparing a model bilateral transit agreement. UNCTAD is co-operating in this work by analysing existing agreements and presenting a first outline. It is hoped that such a model agreement will be useful to both land-locked developing countries and their transit neighbours in their negotiations for the conclusion of new bilateral transit agreements.

94. As a means of facilitating the process of reaching agreement in the transit field, the Expert Group on the Transport Infrastructure for Land-locked Developing Countries recommended in its report that guidelines be prepared by experts in the following technical areas:

(*a*) Improvement of transiting procedures and regulations by joint action;

(*b*) International joint ventures in the field of transport;

(*c*) Pricing in the transport sector.[40]

### 3. *Study on the planning and implementation of projects with costs incurred in one country and benefits accruing to another*

95. A major problem is how to provide construction and maintenance funds for those sections of international road or rail routes of low marginal benefit to the transit country in which they must be built and maintained, but whose principal benefits will flow to a land-locked country. In the absence of established international standards for the preparation, evaluation, financing and management of major projects which cross national borders, a study is needed leading to the preparation of appropriate investment and project guidelines covering, in particular, situations where the principal investment is in the territory of

[39] See A/10203, E/5501 and TD/B/522.

[40] *A transport strategy for land-locked developing countries (op. cit.)*, paras. 34 and 44-63.

one country and the benefits accrue to another country (as in the provision of transit transport links for the benefit of land-locked countries). The study should include recommendations concerning suitable agencies for project planning and administration, and for the operation of the completed undertaking, including joint ventures.

### 4. *Technical assistance*

96. UNCTAD, in co-operation with ESCAP, already has a project in operation to assist the land-locked least developed countries, particularly with respect to their transit trade and transport problems. Proposals have been made for similar projects in other regions. Schemes such as these can play a key role in facilitating the joint planning approach described above.

## CHAPTER III

## *Special measures in favour of geographically disadvantaged developing island countries*

97. The problems of developing island countries were initially raised in Conference resolution 65 (III) of 19 May 1972, which requested the convening of a small panel of experts to identify them and make recommendations for consideration by the Trade and Development Board. The report of this panel[41] stressed the fact that developing island countries had many problems similar to those facing developing countries as a whole. However, it identified certain issues as being of particular concern to island countries. First, although the majority of the inhabitants of developing island countries live in large countries such as Indonesia, the Philippines and Sri Lanka, most developing island countries and territories are in fact small, and some of them very small indeed. Thus, problems associated with small territorial size are likely to be of special concern. Secondly, small islands are heavily dependent on external transport, and in particular on shipping. Thus, the nature and cost of shipping services need special consideration. Thirdly, many such islands lie in the path of tropical storms, and need to plan to meet disasters. Fourthly, they have a particular interest in questions relating to the control of marine resources. Finally, in view of their small size and the limitations which this places on their prospects for economic development, they have a particular interest in regional co-operation.

98. In its decision 28 (LVII) of 2 August 1974, the Economic and Social Council requested the Secretary-General of the United Nations, in consultation with the Secretary-General of UNCTAD and the executive heads of the specialized agencies and other international institutions, to:

(*a*) Prepare a report outlining the special economic problems and development needs of the geographically more disadvantaged developing island countries;

(*b*) Make concrete proposals concerning any measures required to overcome or minimize the effects of the special problems of the countries referred to in subparagraph (*a*) above;

(*c*) Present this report to the Committee on Review and Appraisal within the context of the mid-term review of the International Development Strategy for the Second United Nations Development Decade.

In the report prepared by the UNCTAD secretariat in pursuance of this decision,[42] the special problems stemming from peripheral location, inadequate resource base and small size were examined in greater detail, and the possibile measures which might help to offset these handicaps were studied.

99. Measures need to be taken in the following areas in order to alleviate the most acute of the particular disabilities facing geographically disadvantaged island developing countries.

### A. External sea transport

100. The remote or peripheral island countries often share with land-locked countries the problem of access to world traffic routes; this access often involves trans-shipment in a foreign country. Land-locked and remote island countries thus share an interest in measures to facilitate transit and trans-shipment. These include the improvement of nodal points and storage facilities, as well as basic port development. The development of inter-island shipping and that of external shipping are closely linked.

101. As a result of their small size, the geographically disadvantaged island countries are in a particularly weak negotiating position vis-à-vis the shipping lines with which they deal. More information on the shipping market and on cargo-handling techniques, and the development of shippers' councils, could improve the quality and reduce the cost of shipping services.[43]

102. Geographically disadvantaged island countries could often benefit from concerted regional action, including the establishment of specific regional bodies (e.g. regional shippers' councils), to deal with problems of transport not only by sea but also by air.

### B. Inter-island transport and feeder services

103. Apart from the difficulties in external communications experienced by geographically disadvantaged island countries, archipelagic States further face the specific problem of evolving forms of inter-island transport which can be efficient even where they handle low volumes of traffic. This involves the design of suitable forms of vessel and corresponding shore facilities, appropriate methods of cargo handling and the use of aircraft. Technical assistance and exchanges of information in this field are desirable.

[41] *Developing island countries* (United Nations publication, Sales No. E.74.II.D.6).

[42] "Special economic problems and development needs of the geographically more disadvantaged developing island countries: note by the Secretary-General" (E/5647).

[43] See "Protection of shipper interests – An action programme: report prepared by the UNCTAD secretariat" (TD/B/C.4/127/Supp.1).

104. Given the rapidly changing cost structures and techniques in transport, remote island countries need to develop new means of connecting individual islands with main centres and regional nodal points, i.e. efficient national or regional inter-island and feeder services by sea or air. This involves the development and financing of appropriate types of vessel or aircraft and service and handling facilities, and the training of manpower. As these questions have not previously been considered as a whole on a world scale, and as a mass of valuable experience and information on the subject is available for sifting, work should be undertaken on the collection and analysis of such information so as to provide a better basis for future financial and technical assistance.

### C. External air transport

105. Because most goods travel by sea, the air communications of geographically disadvantaged island developing countries have hitherto received little attention. Yet most international passengers travel by air, and tourism is a major sector in the economies of most of these countries. The prospects for developing exports suitable for carriage by air are in principle good, as are the prospects for importing by air, in view of the growing delays and cost of shipping by sea.

106. The development of air services has been hampered by unimaginative fare or tariff structures, inappropriate services or simply lack of interest on the part of the airlines (which are often foreign-owned).

107. The Governments concerned should urge their national airlines to pay more attention to the long-term benefits likely to accrue to the airlines themselves, as well as to the remote island countries, if more suitable air services were available, with an appropriate and well-conceived fare and tariff structure for both passengers and freight. Agencies advising geographically disadvantaged island developing countries on export promotion should also be urged to take full account of the possibilities that air freight can offer.

### D. Commodity export revenue

108. Island developing countries are heavily dependent on exports, and usually on a narrow range of commodity exports. This, however, is more a result of their small size than of their insular location. Island developing countries are likely, therefore, to benefit from measures to increase and stabilize the commodity export earnings of developing countries in general.

109. The interests of geographically disadvantaged island developing countries, which are particularly vulnerable to fluctuations in export earnings, deserve special attention in the framework, for instance, of the integrated programme for commodities.[44]

110. Measures to increase the share of export earnings accruing to the rural producers themselves should be encouraged.

### E. Natural disasters

111. Many geographically disadvantaged island developing countries lie in areas prone to natural disasters – in particular tropical storms, but also earthquakes or volcanic eruptions. Technical assistance to such islands to bring the risk of natural disasters into planning procedures can be valuable. UNCTAD is already assisting Governments of Caribbean countries to prepare a disaster insurance scheme. Similar assistance in the preparation of insurance schemes would also be useful to other geographically disadvantaged island developing countries, either singly or in groups.

112. Because disasters constitute a major obstacle to the development of many countries, and the expenditure of resources on disaster prevention has a much more favourable cost effectiveness than the provision of relief after disasters, however essential this may be, the Office of the United Nations Disaster Relief Co-ordinator has proposed an international strategy for disaster prevention. Disaster-prone islands should take the risks to which they are exposed into account in a wide range of policy areas. Physical planning and location policies have to take account, for example, of the varying degrees of risk involved in construction in different areas and in the use of different materials or methods.

113. International support should be given for the expansion and improvement of meteorological services in peripheral island countries, in order to improve the data required for disaster prediction.

### F. Regional co-operation

114. Regional integration may be effective among island countries which are not too widely dispersed. Even where integration may not be an effective measure for building an industrial structure, regional co-operation in specific matters can be beneficial, for instance by providing technical information and expert manpower through regional lending or monetary institutions, or by assisting with export promotion, import rationalization or the improvement of regional transport. Measures towards greater regional co-operation and integration between remote island countries should be encouraged and assisted.

115. One way in which geographically disadvantaged island developing countries can limit the costs arising from their small size and remote location is to co-operate with one another in the purchase of their imports.

[44] See document TD/184 above.

TABLE 1

**Per capita GNP, population and growth of real product in the hard-core least developed countries and certain land-locked developing countries 1960 – 1974, and projections of per capita GNP in 1980**

| | Per capita GNP 1974 at 1973 prices (dollars) | Projected per capita GNP in 1980[a] (dollars) | | | Average annual growth rate of per capita real product (per cent) | | | Population (millions) 1974 | Average annual growth rate of population (per cent) 1970-1973 | Average annual growth rate of total real product (per cent | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | A | B | C | 1960-1970[b] | 1970-1974[b] | 1973-1974 | | | 1960-1970[b] | 1970-1974[b] | 1973-1974 |
| *Hard-core least developed countries* | | | | | | | | | | | | |
| Afghanistan* | 81 | 81 | 89 | 100 | 0.1 | 1.6 | 0.6 | 18.80 | 2.3 | 2.5 | 4.0 | 3.0 |
| Bangladesh | 100 | 106 | 107 | 123 | 1.0 | 1.1 | 0.0 | 74.99 | 2.4 | 3.8 | 3.8 | 2.7 |
| Benin[c] | 126 | 139 | 138 | 155 | 1.7 | 1.5 | 2.8 | 3.03 | 2.7 | 4.1 | 4.0 | 5.3 |
| Bhutan* | 70 | .. | .. | 86 | .. | .. | .. | 0.91 | 2.3 | .. | .. | .. |
| Botswana* | 353 | 436 | 1 176 | 434 | 3.6 | 22.2 | 24.8 | 0.66 | 3.7 | 5.6 | 24.7 | 27.3 |
| Burundi* | 73 | 54 | 85 | 90 | −5.0 | 2.5 | −0.9 | 3.68 | 2.4 | −2.7 | 5.0 | 1.5 |
| Central African Republic* | 175 | 165 | 174 | 215 | −1.0 | −0.1 | −1.2 | 1.75 | 2.3 | 1.3 | 2.2 | 1.1 |
| Chad* | 94 | 81 | 75 | 116 | −2.4 | −3.8 | 6.4 | 3.95 | 2.0 | 0.0 | −1.5 | 9.0 |
| Democratic Yemen | 109 | 78 | 98 | 134 | −5.5 | 1.7 | 0.1 | 1.63 | 2.7 | −2.8 | 1.2 | 3.0 |
| Ethiopia | 81 | 89 | 83 | 100 | 1.5 | 0.4 | −2.3 | 27.24 | 1.9 | 4.3 | 3.2 | 0.4 |
| Gambia | 188 | 213 | 252 | 231 | 2.1 | 5.0 | 15.2 | 0.51 | 2.2 | 4.2 | 7.1 | 17.5 |
| Guinea | 147 | 138 | 161 | 181 | −1.0 | 1.5 | 7.2 | 4.31 | 2.4 | 1.3 | 3.8 | 9.7 |
| Haiti | 142 | 129 | 157 | 175 | −1.6 | 1.7 | 0.4 | 4.51 | 1.6 | 1.0 | 4.3 | 3.0 |
| Laos* | 101 | 112 | .. | 124 | 1.7 | .. | .. | 3.26 | 2.4 | 4.3 | .. | .. |
| Lesotho* | 102 | 108 | 109 | 125 | 1.0 | 1.1 | 3.8 | 1.02 | 2.2 | 3.0 | 3.1 | 5.9 |
| Malawi* | 113 | 128 | 162 | 139 | 2.1 | 6.2 | 1.2 | 4.92 | 2.6 | 4.8 | 9.0 | 3.8 |
| Maldives | 90 | .. | .. | 111 | .. | .. | .. | 0.12 | 2.1 | .. | .. | .. |
| Mali* | 76 | 67 | 57 | 93 | −2.0 | −4.6 | 4.4 | 5.56 | 2.1 | 0.3 | −2.3 | 6.9 |
| Nepal* | 93 | 93 | 94 | 114 | 0.0 | 0.1 | 3.9 | 12.32 | 2.4 | 2.3 | 2.4 | 6.3 |
| Niger* | 130 | 148 | 90 | 160 | 2.2 | −6.0 | 4.6 | 4.48 | 2.3 | 5.3 | −3.2 | 7.7 |
| Rwanda* | 68 | 74 | 64 | 84 | 1.4 | −0.9 | −5.1 | 4.12 | 2.7 | 4.7 | 2.3 | −2.0 |
| Sikkim* | 90 | .. | .. | 111 | .. | .. | .. | 0.21 | 2.0 | .. | .. | .. |
| Somalia | 81 | 79 | 98 | 100 | −0.4 | 3.2 | 1.9 | 3.09 | 2.5 | 1.7 | 5.4 | 4.1 |
| Sudan | 123 | 116 | 120 | 151 | −1.0 | −0.4 | −9.4 | 17.32 | 2.5 | 2.1 | 2.7 | −6.6 |
| Uganda* | 134 | 154 | 102 | 165 | 2.4 | −4.5 | −16.7 | 11.17 | 3.3 | 5.3 | −1.9 | −14.4 |
| United Republic of Tanzania | 123 | 165 | 130 | 151 | 5.0 | 0.9 | −3.1 | 14.76 | 2.7 | 7.8 | 3.6 | −0.5 |
| Upper Volta* | 81 | 96 | 85 | 100 | 2.9 | 0.8 | 2.9 | 5.90 | 2.1 | 4.9 | 2.8 | 5.0 |
| Western Samoa | 280 | .. | .. | 344 | .. | .. | .. | 0.16 | 2.1 | .. | .. | .. |
| Yemen | 73 | 78 | .. | 90 | 1.2 | .. | .. | 6.48 | 2.9 | 4.2 | .. | .. |
| *Total* | 104 | 108 | 106 | 128 | 0.7 | 0.4 | −2.0 | 240.86 | 2.4 | 3.4 | 3.0 | 0.6 |
| *Other land-locked developing countries* | | | | | | | | | | | | |
| Bolivia | 210 | 254 | 252 | 258 | 3.2 | 3.1 | 4.1 | 5.47 | 2.6 | 5.7 | 5.7 | 6.7 |
| Paraguay | 423 | 474 | 526 | 520 | 1.9 | 3.7 | 5.5 | 2.57 | 3.9 | 4.5 | 6.4 | 8.2 |
| Swaziland | 319 | 415 | 366 | 392 | 4.5 | 2.3 | 3.1 | 0.48 | 4.3 | 7.6 | 5.4 | 6.2 |
| Zambia | 513 | 695 | 541 | 631 | 5.2 | 0.9 | 1.9 | 4.75 | 3.5 | 8.3 | 3.8 | 4.9 |
| *All developing countries* | 321 | 374 | 402 | 395 | 2.6 | 3.8 | 4.6 | 1 860.11 | 2.5 | 5.2 | 6.4 | 7.3 |

*Source*: UNCTAD secretariat calculations, based on data from the Statistical Office of the United Nations and other sources, international and national.

* Land-locked developing countries.

[a] The figures in column A assume a continuation of the growth rate of *per capita* real product in the period 1960-1970; those in column B assume a continuation of the growth rate of *per capita* real product in the period 1970-1974; those in column C assume the growth rate of *per capita* gross product of 3.5 per cent called for in the International Development Strategy for the Second United Nations Development Decade.

[b] Trend rates.

[c] Formerly Dahomey.

TABLE 2

**The agricultural sector in the hard-core least developed countries and certain land-locked developing countries, 1960-1974**

| | Agricultural labour force as percentage of total labour force 1970 | Percentage share of agriculture in total GDP 1973 | Average annual growth rates of agricultural production (per cent) | | | | | | Average annual growth rates of food production (per cent) | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | 1961-1970[a] | 1970-1974[a] | 1970-1971 | 1971-1972 | 1972-1973 | 1973-1974 | 1961-1970[a] | 1970-1974[a] | 1970-1971 | 1971-1972 | 1972-1973 | 1973-1974 |
| *Hard-core least developed countries* | | | | | | | | | | | | | | |
| Afghanistan* | 82 | 51[b] | 1.6 | 6.2 | -4.9 | 14.3 | 6.3 | 5.9 | 1.5 | 6.2 | -4.9 | 14.3 | 7.1 | 5.0 |
| Bangladesh | 71 | 56[c] | 2.9 | 1.4 | -10.3 | 1.9 | 17.0 | -8.1 | 3.0 | 1.7 | -8.5 | -0.9 | 19.8 | -7.9 |
| Benin[d] | 52 | 31[e] | 3.8 | 2.8 | 0.8 | -3.0 | 8.5 | 5.7 | 3.4 | 2.2 | -0.8 | -4.7 | 9.1 | 6.1 |
| Bhutan* | .. | .. | .. | .. | .. | .. | .. | .. | .. | .. | .. | .. | .. | .. |
| Botswana* | 87 | 29[f] | 5.7 | 5.0 | 13.9 | -10.3 | 14.3 | 8.1 | 5.9 | 5.0 | 13.7 | -10.8 | 14.9 | 8.0 |
| Burundi* | 86 | 76 | 4.6 | 11.8 | 10.7 | 25.9 | 1.4 | 9.4 | 4.6 | 11.9 | 10.7 | 26.5 | 1.0 | 9.9 |
| Central African Republic* | 87 | 32[f] | 1.3 | 1.7 | 3.6 | 2.6 | 0.0 | 0.8 | 0.8 | 2.1 | 3.7 | 1.8 | 2.6 | 0.0 |
| Chad* | 91 | 44 | 0.5 | -7.9 | 1.0 | -20.4 | -8.5 | 5.3 | -0.1 | -9.2 | -1.0 | -22.0 | -9.0 | 4.2 |
| Democratic Yemen | 62 | 19[h] | 1.8 | 3.4 | 7.3 | -5.1 | 10.7 | 2.4 | 2.3 | 3.8 | 6.2 | -3.3 | 10.3 | 3.1 |
| Ethiopia | 85 | 47 | 2.3 | -0.5 | 0.0 | 1.7 | 0.0 | -5.0 | 2.3 | -0.8 | -0.8 | 1.7 | -0.8 | -4.2 |
| Gambia | 84 | 50 | 4.3 | 5.8 | 6.0 | -0.8 | 12.2 | 6.5 | 4.1 | 5.8 | 6.0 | -0.8 | 12.2 | 6.5 |
| Guinea | 84 | 27 | 2.5 | -0.9 | 0.8 | -5.0 | -1.8 | 5.4 | 2.5 | -0.9 | 0.8 | -4.2 | -2.6 | 5.4 |
| Haiti | 77 | 47[c] | 1.1 | 2.6 | 4.6 | 1.8 | 2.6 | 1.7 | 1.3 | 2.8 | 4.6 | 2.6 | 2.6 | 1.7 |
| Laos* | 78 | .. | 7.2 | 1.8 | -5.3 | 0.7 | 6.9 | 3.2 | 7.1 | 1.6 | -5.3 | 0.7 | 6.2 | 3.2 |
| Lesotho* | 89 | 37[f] | 0.5 | 2.6 | 0.0 | -23.8 | 52.5 | -9.0 | 0.3 | 4.3 | 1.9 | -23.6 | 58.0 | -8.6 |
| Malawi* | 88 | 47[f] | 4.8 | 5.4 | 10.8 | 11.1 | -1.9 | 3.2 | 5.0 | 5.5 | 10.1 | 10.6 | -1.3 | 3.9 |
| Maldives | .. | .. | .. | .. | .. | .. | .. | .. | .. | .. | .. | .. | .. | .. |
| Mali* | 91 | 34 | 1.7 | -6.8 | 8.3 | -19.5 | -21.1 | 28.0 | 1.4 | -7.0 | 7.5 | -20.2 | -20.9 | 29.2 |
| Nepal* | 92 | 69[e] | 1.1 | 0.2 | 0.0 | -6.3 | 10.6 | -4.3 | 1.1 | 0.0 | -0.9 | -6.4 | 10.7 | -4.4 |
| Niger* | 91 | 51[b] | 3.1 | -7.0 | -9.4 | -0.9 | -27.6 | 26.3 | 3.0 | -6.7 | -8.6 | -0.9 | -26.7 | 24.7 |
| Rwanda* | 91 | 51 | 4.2 | -1.8 | 2.1 | -2.0 | 4.1 | -13.2 | 4.2 | -1.8 | 2.1 | -2.0 | 4.1 | -13.2 |
| Sikkim* | .. | .. | .. | .. | .. | .. | .. | .. | .. | .. | .. | .. | .. | .. |
| Somalia | 82 | 32 | 3.2 | 3.2 | -0.8 | 10.5 | 0.7 | 0.7 | 3.2 | 3.2 | -0.8 | 11.3 | 0.0 | 0.7 |
| Sudan | 80 | 32[f] | 5.3 | 2.1 | 4.0 | -0.6 | -3.2 | 13.4 | 5.3 | 2.9 | 4.1 | -0.7 | 0.0 | 11.8 |
| Uganda* | 86 | 48[f] | 3.4 | -0.9 | -3.9 | 1.6 | -2.4 | 0.8 | 3.6 | -0.6 | -3.1 | 1.6 | -2.4 | 1.6 |
| United Republic of Tanzania | 86 | 36 | 4.2 | -0.1 | -5.7 | 2.3 | 1.5 | 0.0 | 4.5 | 0.1 | -5.4 | 2.9 | 2.1 | -1.4 |
| Upper Volta* | 89 | 43[g] | 3.5 | -10.4 | -5.0 | -5.3 | -15.9 | -14.4 | 3.3 | -10.6 | -6.0 | -5.5 | -16.3 | -13.8 |
| Western Samoa | .. | .. | .. | .. | .. | .. | .. | .. | .. | .. | .. | .. | .. | .. |
| Yemen | 73 | 61 | -1.3 | 7.5 | 31.7 | 10.2 | 0.0 | -5.9 | -1.3 | 7.0 | 30.5 | 9.3 | 0.0 | -6.0 |
| *Total* | 81 | 48 | 3.0 | 1.2 | -3.4 | 1.9 | 5.4 | -1.8 | 3.0 | 1.4 | -2.9 | 1.0 | 6.7 | -1.4 |
| *Other land-locked developing countries* | | | | | | | | | | | | | | |
| Bolivia | 58 | 15 | 3.8 | 5.2 | 5.4 | 4.4 | 6.3 | 4.6 | 3.8 | 4.1 | 4.7 | 3.0 | 4.3 | 4.8 |
| Paraguay | 53 | 35[e] | 3.3 | 2.4 | -0.8 | -1.6 | 9.0 | 2.3 | 3.2 | 1.1 | 0.8 | -3.9 | 4.1 | 4.7 |
| Swaziland | 82 | 33[f] | 6.1 | 3.8 | 4.5 | 11.0 | -6.1 | 8.2 | 6.3 | 3.3 | 3.2 | 11.1 | -6.7 | 7.7 |
| Zambia | 69 | 13[f] | 3.2 | 4.1 | 2.5 | 4.1 | 2.4 | 8.5 | 3.5 | 3.9 | 1.6 | 4.0 | 2.3 | 8.3 |
| *All developing countries* | 65 | 23 | 2.8 | 1.6 | 0.8 | 0.8 | 2.4 | 2.3 | 2.8 | 1.4 | 0.8 | 0.0 | 3.2 | 1.6 |

*Source:* FAO, *Production Yearbook* (various issues); *Yearbook of National Accounts Statistics, 1974* (United Nations publication. Sales No. E.75.X.VII.5, vol. 1, 2 and 3), and *Monthly Bulletin of Statistics,* January 1976.

* Land-locked developing countries.

[a] Trend rates.

[b] 1969.

[c] 1972.

[d] Formerly Dahomey.

[e] 1974.

[f] 1971.

[g] 1968.

[h] 1970.

TABLE 3

**Growth and level of manufacturing production, and gross domestic investment in the hard-core least developed countries and certain land-locked developing countries, 1960-1973**

*(Percentages)*

| | Manufacturing | | | | | | Gross domestic investment | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Share in GDP | Annual average growth rate of real GDP arising in manufacturing | | | | | Share in GDP | Real growth rate (annual average) | | | | |
| | 1973 | 1960-1970 | 1970-1973 | 1970-1971 | 1971-1972 | 1972-1973 | 1973 | 1960-1970 | 1970-1973 | 1970-1971 | 1971-1972 | 1972-1973 |
| *Hard-core least developed countries* | | | | | | | | | | | | |
| Afghanistan* | 11[a] | 5.1[b] | .. | .. | .. | .. | .. | .. | .. | .. | .. | .. |
| Bangladesh | 9[c, d] | 8.2 | .. | .. | .. | .. | .. | .. | .. | .. | .. | .. |
| Benin[e] | 9[f, d] | 12.4 | 5.0 | 2.5 | 6.8 | 5.8 | 18[g] | 4.7 | 6.4 | −2.4 | 13.9 | 8.4 |
| Bhutan* | .. | .. | .. | .. | .. | .. | .. | .. | .. | .. | .. | .. |
| Botswana* | 8[h] | 7.3 | 29.9 | 53.2 | 19.0 | 20.1 | 59[h] | 16.0 | 77.4 | 369.0 | 6.7 | 11.8 |
| Burundi* | 3 | −0.4 | −0.4 | −4.4 | 2.3 | 1.1 | 6[i] | 0.4 | 2.8 | 6.4 | 6.0 | −3.6 |
| Central African Republic* | 9[h] | 9.8 | 4.2 | −1.6 | 8.1 | 6.3 | 18[h] | 3.2 | 2.7 | 4.3 | −0.5 | 4.4 |
| Chad* | 10 | 3.6 | 6.3 | 5.8 | 8.2 | 5.1 | 12[j] | 1.8 | 0.0 | −2.9 | 5.4 | −2.3 |
| Democratic Yemen | 25[g] | .. | .. | .. | .. | .. | .. | .. | .. | .. | .. | .. |
| Ethiopia | 10 | 8.1 | 6.0 | 9.1 | 4.2 | 4.8 | 10[f] | .. | .. | .. | .. | .. |
| Gambia | 3 | 7.2 | 11.9 | 10.0 | 27.3 | 0.0 | 20 | 8.0 | 11.9 | 22.5 | 9.2 | 4.7 |
| Guinea | 10 | 3.5 | 6.0 | 3.1 | 10.1 | 5.1 | 8 | 3.8 | 3.8 | −3.9 | 6.3 | 9.4 |
| Haiti | 11[c] | 0.6 | 8.5 | 7.5 | 7.1 | 10.8 | 10[c] | 4.5 | 11.6 | 19.1 | 7.0 | 9.0 |
| Laos* | .. | .. | .. | .. | .. | .. | .. | .. | .. | .. | .. | .. |
| Lesotho* | 1[h] | 8.4 | 11.6 | 5.6 | 21.1 | 8.7 | 12[h] | 22.8 | 25.0 | 25.7 | 33.0 | 17.1 |
| Malawi* | 12[h] | 17.0 | 10.7 | −2.8 | 17.3 | 19.2 | 21[f] | 8.9 | 9.7 | −2.3 | 15.8 | 16.6 |
| Maldives | .. | .. | .. | .. | .. | .. | .. | .. | .. | .. | .. | .. |
| Mali* | 15 | 7.3 | 4.1 | 6.1 | 3.8 | 2.5 | 17[a] | 6.0 | −3.0 | −11.8 | 5.2 | −1.6 |
| Nepal* | 10[f] | .. | .. | .. | .. | .. | .. | .. | .. | .. | .. | .. |
| Niger* | 6[a] | 8.1 | 2.4 | −3.6 | 7.1 | 3.9 | 6[a] | 6.0 | −9.2 | −23.5 | 5.2 | −6.9 |
| Rwanda* | 15 | 31.3 | 8.9 | 14.6 | 4.4 | 8.0 | 11 | 6.7 | 17.5 | 38.9 | 11.2 | 5.0 |
| Sikkim* | .. | .. | .. | .. | .. | .. | .. | .. | .. | .. | .. | .. |
| Somalia | 9 | 9.2 | 15.8 | 26.0 | 11.9 | 10.1 | 20 | 3.3 | 20.8 | 10.6 | 30.9 | 21.7 |
| Sudan | 10[h] | 5.5 | 5.7 | 6.5 | 4.7 | 6.1 | 10[g] | 4.6 | −1.2 | −0.8 | −5.6 | 2.9 |
| Uganda* | 8[h] | 10.3 | −2.2 | −5.8 | 3.3 | −4.6 | 15[h] | 9.3 | −16.6 | 21.2 | −26.1 | −35.3 |
| United Republic of Tanzania | 10 | 18.2 | 10.3 | 8.8 | 11.1 | 11.2 | 24 | 13.9 | −0.9 | 20.8 | −7.9 | −12.4 |
| Upper Volta* | 10[k] | 7.9 | 9.4 | 12.4 | 9.9 | 6.1 | 7[g] | 10.4 | 10.1 | 18.0 | 4.3 | 8.5 |
| Western Samoa | .. | .. | .. | .. | .. | .. | .. | .. | .. | .. | .. | .. |
| Yemen | 2 | .. | .. | .. | .. | .. | 12 | .. | .. | .. | .. | .. |
| *Total* | 9 | 7.9 | 6.2 | 5.8 | 6.8 | 6.1 | 14 | 7.4 | 4.7 | 20.6 | −2.8 | −2.1 |
| *Other land-locked developing countries* | | | | | | | | | | | | |
| Bolivia | 12 | 7.1[l] | 4.4 | 2.8 | 5.3 | 5.0 | 13[f] | 7.1[l] | 7.5 | −0.7 | −1.9 | 27.6 |
| Paraguay | 18[f] | 5.8 | 4.9 | 3.3 | 6.3 | 5.2 | 21[f] | 6.5 | 18.2 | 4.8 | 15.4 | 36.8 |
| Swaziland | 15[h] | 18.6 | 7.7 | −1.3 | 19.7 | 5.7 | 22[c] | 12.0 | 0.6 | 17.4 | −17.5 | 5.2 |
| Zambia | 12[h] | 11.3 | 16.6 | 18.4 | 17.8 | 13.6 | 35[h] | 8.9 | 0.7 | 18.3 | −0.8 | −13.0 |
| *All developing countries* | 19 | 7.2 | 8.6 | 7.0 | 9.3 | 9.4 | 19 | 6.6 | 8.0 | 7.0 | 8.4 | 8.6 |

*Source:* As for table 1.

*Land-locked developing countries.

[a] 1969. [b] 1961-1969. [c] 1972. [d] Total industry. [e] Formerly Dahomey. [f] 1974. [g] 1970. [h] 1971. [i] 1965. [j] 1963. [k] 1968. [l] 1963-1970.

TABLE 4

**Growth of export value and purchasing power in the hard-core least developed countries and certain land-locked developing countries, 1960-1974**

| | *Exports in 1974* | | *Annual average growth rate of export value (per cent)* | | | *Annual average growth rate of purchasing power of exports (per cent)* | | | *Exports per capita (dollars)* | *Increment in purchasing power of exports in constant (1974) (dollars per capita)* | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | *Value (million dollars)* | *Percentage of GNP at 1973 prices* | *1960-1970* | *1970-1974* | *1973-1974*[a] | *1960-1970* | *1970-1974* | *1973-1974*[a] | *1974* | *1960-1970* | *1970-1974* | *1973-1974*[a] |
| *Hard-core least developed countries* | | | | | | | | | | | | |
| Afghanistan* | 150 | 9.9 | 4.5 | 14.9 | 36.4 | 2.9 | –1.4 | 1.1 | 8.1 | 0.7 | 1.2 | 0.0 |
| Bangladesh | 347 | 4.4 | 5.3 | –9.6 | –2.8 | 3.2 | –24.9 | –33.5 | 4.4 | 0.7 | –10.9 | –2.4 |
| Benin[b] | 55 | 15.0 | 7.3 | 13.6 | –6.8 | 4.4 | –2.6 | –31.5 | 19.0 | 3.6 | –3.7 | –8.7 |
| Bhutan* | .. | .. | .. | .. | .. | .. | .. | .. | .. | .. | .. | .. |
| Botswana* | 80 | 34.2 | 7.9 | 45.2 | 14.3 | 6.4 | 23.1 | –19.2 | 114.3 | 20.5 | 56.1 | –27.1 |
| Burundi* | 30 | 10.4 | 9.6 | 5.7 | 0.0 | 10.9 | –10.4 | –29.3 | 7.7 | 7.6 | –5.6 | –4.1 |
| Central African Republic* | 48 | 15.7 | 10.5 | 11.6 | 29.7 | 6.1 | –4.0 | –3.2 | 26.7 | 9.4 | –8.7 | –2.5 |
| Chad* | 65 | 17.0 | 7.1 | 21.3 | 71.1 | 6.1 | 4.3 | 28.5 | 15.9 | 5.5 | 0.6 | 2.9 |
| Democratic Yemen | 203 | 112.8 | –3.9 | 8.6 | 81.3 | –3.5 | –8.0 | 28.2 | 119.4 | –132.2 | –57.4 | 20.5 |
| Ethiopia | 268 | 11.9 | 5.1 | 21.7 | 13.1 | 3.4 | 1.9 | –24.7 | 9.6 | 1.5 | –0.5 | –3.9 |
| Gambia | 39 | 53.4 | 7.2 | 23.1 | 56.0 | 6.0 | 4.6 | 13.0 | 97.5 | 20.6 | 15.9 | 11.2 |
| Guinea | 120 | 19.0 | 0.9 | 21.0 | 71.4 | –1.2 | 2.5 | 21.3 | 27.9 | –11.6 | 0.1 | 4.3 |
| Haiti | 72 | 10.1 | 0.5 | 15.8 | 38.5 | 0.0 | –1.8 | –2.0 | 13.6 | –3.6 | –2.2 | –0.6 |
| Laos* | 6 | 1.8 | 24.5 | –3.8 | 20.0 | 19.2 | –18.4 | –15.1 | 1.8 | 3.5 | –2.7 | –0.4 |
| Lesotho* | 16 | 15.5 | 4.8 | 27.8 | 14.3 | 2.1 | 8.3 | –19.2 | 16.0 | –0.5 | 3.1 | –3.8 |
| Malawi* | 119 | 21.4 | 9.9 | 18.7 | 24.0 | 7.1 | 1.4 | –9.1 | 24.3 | 8.9 | –1.3 | –3.0 |
| Maldives | .. | .. | .. | .. | .. | .. | .. | .. | .. | .. | .. | .. |
| Mali* | 42 | 9.9 | 5.1 | 6.2 | 20.0 | 7.7 | –10.3 | –14.2 | 7.5 | 5.2 | –5.2 | –1.6 |
| Nepal* | 50 | 4.4 | 22.8 | 3.2 | 42.9 | 7.9 | –12.5 | 1.1 | 4.1 | 3.4 | –3.6 | –0.1 |
| Niger* | 52 | 9.2 | 8.1 | 12.9 | –16.1 | 7.3 | –3.5 | –38.4 | 12.1 | 5.1 | –2.5 | –7.5 |
| Rwanda* | 37 | 13.5 | 18.4 | 10.3 | 19.4 | 17.9 | –6.0 | –12.7 | 9.3 | 9.4 | –3.6 | –1.3 |
| Sikkim* | .. | .. | .. | .. | .. | .. | .. | .. | .. | .. | .. | .. |
| Somalia | 60 | 24.4 | 2.4 | 17.9 | 42.9 | 1.2 | –0.1 | 4.0 | 20.0 | –5.2 | –1.5 | 0.1 |
| Sudan | 350 | 16.3 | 3.4 | 4.5 | –19.4 | 3.1 | –12.7 | –45.8 | 20.0 | 0.8 | –18.3 | –18.2 |
| Uganda* | 327 | 22.3 | 7.1 | 3.8 | 0.3 | 5.2 | –11.7 | –28.7 | 30.0 | 6.7 | –24.9 | –12.5 |
| United Republic of Tanzania | 427 | 23.4 | 5.0 | 13.3 | 16.0 | 1.9 | –3.6 | –18.1 | 28.9 | –2.8 | –8.4 | –7.4 |
| Upper Volta* | 36 | 7.6 | 17.9 | 19.0 | 56.5 | 14.2 | 1.6 | 15.8 | 6.2 | 4.2 | –0.1 | 0.8 |
| Western Samoa | 12 | 30.0 | –4.1 | –24.5 | –20.0 | –5.2 | 5.5 | –43.4 | 60.0 | –116.2 | 11.5 | –46.0 |
| Yemen | 14 | 3.0 | –3.8 | 47.0 | 75.0 | –9.9 | 24.6 | 23.8 | 2.2 | –2.7 | 1.2 | 0.4 |
| *Total*[c] | 3 020 | 12.1 | 4.6 | 8.0 | 12.3 | 2.8 | –8.5 | –20.6 | 12.3 | 0.6 | –7.1 | –3.7 |
| *Other land-locked developing countries* | | | | | | | | | | | | |
| Bolivia | 548 | 50.6 | 15.1 | 30.7 | 95.7 | 11.9 | 10.9 | 45.7 | 105.4 | 42.9 | 31.6 | 31.6 |
| Paraguay | 170 | 16.0 | 7.2 | 27.7 | 33.9 | 6.9 | 6.1 | –8.3 | 68.0 | 17.8 | 12.1 | –6.2 |
| Swaziland | 125 | 83.9 | 11.3 | 15.2 | 14.7 | .. | .. | .. | 250.0 | .. | .. | .. |
| Zambia | 1 407 | 55.3 | 13.4 | 8.9 | 23.1 | 8.6 | –6.2 | –7.3 | 281.4 | 183.2 | –151.4 | –63.7 |
| *All developing countries* | 209 900 | 35.9 | 6.8 | 41.7 | 11.4 | 5.0 | 18.7 | 46.6 | 110.4 | 13.1 | 48.2 | 32.9 |

*Sources:* United Nations, *Monthly Bulletin of Statistics*, national sources and preliminary estimates of the UNCTAD secretariat.

* Land-locked developing countries.

[a] Preliminary estimates.

[b] Formerly Dahomey.

[c] For the calculation of growth rates and the increment in purchasing power of exports, the import unit value of 16 countries representing approximately 80 per cent of total trade has been used as a deflator for all the least developed countries.

TABLE 5

**Growth of import value and volume for the hard-core least developed countries and certain land-locked developing countries, 1960-1974**

| | *Imports in 1974* | | *Annual average growth rate of import value (per cent)* | | | *Annual average growth rate of import value (per cent)* | | | *Imports per capita (dollars)* | *Increment in volume of imports in constant (1974) (dollars per capita)* | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | *Value (million dollars)* | *Percentage of GNP at 1973 prices* | *1960-1970* | *1970-1974* | *1973-1974*[a] | *1960-1970* | *1970-1974* | *1973-1974*[a] | *1974* | *1960-1970* | *1970-1974* | *1973-1974*[a] |
| *Hard-core least developed countries* | | | | | | | | | | | | |
| Afghanistan* | 240 | 15.9 | 2.4 | 21.0 | 20.0 | 0.0 | 3.8 | −11.0 | 12.9 | −2.9 | 0.8 | −1.8 |
| Bangladesh | 1 096 | 13.8 | 8.0 | 9.7 | 25.0 | 7.0 | −8.9 | −14.5 | 13.8 | 7.4 | −8.5 | −2.8 |
| Benin[b] | 135 | 36.8 | 8.8 | 20.5 | 35.0 | 5.6 | 3.3 | −0.8 | 46.6 | 11.2 | 2.6 | −0.4 |
| Bhutan* | .. | .. | .. | .. | .. | .. | .. | .. | .. | .. | .. | .. |
| Botswana* | 147 | 62.8 | 20.5 | 32.3 | 5.8 | 16.0 | 12.1 | −25.2 | 210.0 | 112.7 | 55.0 | −70.7 |
| Burundi* | 41 | 14.2 | 2.0 | 16.8 | 32.3 | −1.5 | −1.0 | −6.4 | 10.5 | −4.8 | −1.7 | −1.7 |
| Central African Republic* | 46 | 15.1 | 6.1 | 7.8 | −11.5 | 3.4 | −7.2 | −34.0 | 25.6 | 1.7 | −13.2 | −15.4 |
| Chad* | 120 | 31.4 | 7.3 | 18.4 | 46.3 | 6.7 | 1.8 | 10.0 | 29.3 | 12.2 | −1.8 | 1.3 |
| Democratic Yemen | 187 | 103.9 | −1.7 | −1.8 | 10.0 | −2.7 | −16.8 | −22.2 | 110.0 | −149.1 | −133.5 | −40.2 |
| Ethiopia | 275 | 12.2 | 7.6 | 12.4 | 29.1 | 5.5 | −5.9 | −14.1 | 9.9 | 4.3 | −4.4 | −2.3 |
| Gambia | 43 | 58.9 | 7.5 | 24.3 | 38.7 | 5.3 | 5.6 | 0.5 | 107.5 | 17.7 | 21.1 | 0.5 |
| Guinea | 80 | 12.7 | 1.1 | 3.4 | 14.3 | 1.4 | −12.4 | −19.2 | 18.6 | −3.1 | −16.2 | −5.0 |
| Haiti | 99 | 13.8 | 0.9 | 15.8 | 33.8 | 2.3 | −1.8 | −5.4 | 18.7 | 0.6 | −3.1 | −1.4 |
| Laos* | 100 | 30.3 | 21.7 | −3.2 | 75.4 | 22.8 | −18.0 | 24.1 | 30.3 | 61.4 | −43.3 | 5.1 |
| Lesotho* | 90 | 87.4 | 7.5 | 29.5 | 9.8 | 4.5 | 9.8 | −22.4 | 90.0 | 11.8 | 21.1 | −25.9 |
| Malawi* | 185 | 33.3 | 9.2 | 21.1 | 30.3 | 5.9 | 3.5 | −4.5 | 37.8 | 9.9 | 1.0 | −2.6 |
| Maldives | .. | .. | .. | .. | .. | .. | .. | .. | .. | .. | .. | .. |
| Mali* | 127 | 29.9 | 1.1 | 28.2 | 21.0 | 1.7 | 8.2 | −13.5 | 22.7 | −0.9 | 4.5 | −4.5 |
| Nepal* | 80 | 7.0 | 6.2 | 14.2 | 33.3 | 0.2 | −3.2 | −5.7 | 6.5 | −1.4 | −1.7 | −0.7 |
| Niger* | 96 | 17.0 | 13.7 | 13.4 | 11.6 | 13.9 | −3.0 | −18.0 | 22.3 | 16.9 | −4.1 | −4.9 |
| Rwanda* | 38 | 13.9 | 9.6 | 7.0 | 35.7 | 5.5 | −8.8 | −0.7 | 9.5 | 3.0 | −5.4 | −0.1 |
| Sikkim* | .. | .. | .. | .. | .. | .. | .. | .. | .. | .. | .. | .. |
| Somalia | 110 | 44.7 | 3.9 | 25.0 | 19.6 | 2.3 | 5.9 | −13.0 | 36.7 | −3.6 | 5.4 | −6.9 |
| Sudan | 642 | 29.9 | 2.1 | 19.9 | 47.2 | 3.7 | 0.1 | −1.0 | 36.7 | 2.9 | −4.0 | −1.7 |
| Uganda* | 213 | 14.5 | 7.7 | 5.5 | 30.7 | 4.5 | −10.3 | −7.1 | 19.5 | 1.9 | −14.0 | −1.7 |
| United Republic of Tanzania | 811 | 44.4 | 7.4 | 26.4 | 66.2 | 6.0 | 7.5 | 17.3 | 54.8 | 12.7 | 9.1 | 6.8 |
| Upper Volta* | 114 | 24.1 | 9.3 | 24.8 | 58.3 | 13.6 | 6.6 | 17.1 | 19.7 | 10.7 | 3.3 | 2.6 |
| Western Samoa | 26 | 65.0 | 4.3 | 16.7 | 23.8 | 5.1 | −1.1 | −12.4 | 130.0 | −29.0 | −5.7 | −18.4 |
| Yemen | 193 | 41.0 | 12.1 | 56.7 | 54.4 | 7.3 | 32.8 | 9.2 | 30.2 | 3.7 | 19.5 | 2.1 |
| *Total*[c] | 5 330 | 21.3 | 5.7 | 15.6 | 32.7 | 4.5 | −2.0 | −6.1 | 21.7 | 4.7 | −4.4 | −2.1 |
| *Other land-locked developing countries* | | | | | | | | | | | | |
| Bolivia | 400 | 37.0 | 9.6 | 25.9 | 82.6 | 6.8 | 6.9 | 35.9 | 76.9 | 20.6 | 14.5 | 19.2 |
| Paraguay | 153 | 14.4 | 9.1 | 24.3 | 45.7 | 5.1 | 3.4 | −0.2 | 61.2 | 10.8 | 5.3 | −0.1 |
| Swaziland | 98 | 65.8 | 13.5 | 13.0 | 10.1 | .. | .. | .. | 196.0 | .. | .. | .. |
| Zambia | 783 | 30.8 | 11.5 | 13.2 | 47.2 | 6.5 | −2.5 | 10.8 | 156.6 | 61.4 | −49.6 | −4.0 |
| *All developing countries* | 149 900 | 25.6 | 6.2 | 28.3 | 59.1 | 4.6 | 8.2 | 11.0 | 79.6 | 11.7 | 14.7 | 5.7 |

*Sources:* United Nations, *Monthly Bulletin of Statistics*, national sources and preliminary estimates of the UNCTAD secretariat.

* Land-locked developing countries.

[a] Preliminary estimates.

[b] Formerly Dahomey.

[c] For the calculation of the increment in volume of imports, the import unit value of 16 countries representing approximately 80 per cent of total trade has been used as a deflator for all the least developed countries.

TABLE 6

**Commodity structure of exports of the hard-core least developed countries and certain land-locked developing countries, 1972**

| | Value of exports 1972 (million dollars) | Share of major commodity groups in total exports (percentages) | | | | | |
|---|---|---|---|---|---|---|---|
| | | Food and beverages SITC (0+1) | Crude materials SITC (2+4) | Fuels SITC (3) | Non-ferrous metals etc.[a] | Manufactured goods[b] | Total exports SITC (0 to 9) |
| *Hard-core least developed countries* | | | | | | | |
| Afghanistan* | 90 | 25.0 | 46.7 | 10.9 | – | 17.4[c] | 100.0 |
| Bangladesh | 253 | 9.9 | 37.5 | – | – | 49.4[d] | 100.0 |
| Benin[j] | 47 | 36.8 | 57.9 | – | – | 2.6 | 100.0 |
| Bhutan* | .. | .. | .. | .. | .. | .. | .. |
| Botswana* | 46 | 40.9 | 26.9 | – | 32.0[e] | – | 100.0 |
| Burundi* | 25 | 80.0 | 16.0 | – | – | 4.0 | 100.0 |
| Central African Republic* | 39 | 31.0 | 34.9 | 0.2 | 32.1[e] | 1.3 | 100.0 |
| Chad | 39 | 11.1 | 83.3 | – | – | 5.6 | 100.0 |
| Democratic Yemen | 108 | 5.2 | 7.6 | 68.5 | – | 5.4 | 100.0 |
| Ethiopia | 167 | 68.5 | 29.1 | 0.6 | – | 1.5 | 100.0 |
| Gambia | 19 | 16.2 | 83.8 | – | – | – | 100.0 |
| Guinea | 68 | 18.6 | 12.9 | – | 67.1[f] | 2.9 | 100.0 |
| Haiti | 42 | 44.2 | 9.3 | – | – | 41.9 | 100.0 |
| Laos* | 3 | – | 100.0 | – | – | | 100.0 |
| Lesotho* | 8 | 26.0 | 52.7 | – | – | 3.2[e] | 100.0 |
| Malawi* | 81 | 72.8 | 16.0 | 2.5 | – | 6.2 | 100.0 |
| Maldives | 4 | 100.0 | – | – | – | – | 100.0 |
| Mali* | 34 | 38.9 | 55.6 | – | – | 5.6 | 100.0 |
| Nepal* | 30 | 42.3 | 38.5 | – | – | 19.2[d] | 100.0 |
| Niger* | 54 | 22.2 | 75.9 | – | – | 1.9 | 100.0 |
| Rwanda* | 19 | 55.0 | 45.0 | – | – | 4.5 | 100.0 |
| Sikkim* | .. | .. | .. | .. | .. | .. | .. |
| Somalia | 42 | 92.5 | 7.5 | | – | 0.7 | 100.0 |
| Sudan | 360 | 9.5 | 89.4 | 0.8 | | – | 100.0 |
| Uganda* | 283 | 66.3 | 22.9 | 0.6 | 6.1[g] | 0.3 | 100.0 |
| United Republic of Tanzania | 319 | 48.6 | 29.4 | 9.4 | 4.3[e] | 2.4 | 100.0 |
| Upper Volta* | 20 | 60.0 | 35.0 | – | – | – | 100.0 |
| Western Samoa | 12 | 60.0 | 40.0 | – | – | – | 100.0 |
| Yemen | 4 | 25.0 | 75.0 | – | – | – | 100.0 |
| *Total* | 2 220 | 37.1 | 40.9 | 5.5 | 4.7 | 9.1 | 100.0 |
| *Other land-locked countries* | | | | | | | |
| Bolivia | 207 | 1.9 | 0.1 | 15.3 | 78.1[h] | – | 100.0 |
| Paraguay | 86 | 41.6 | 36.9 | 0.2 | – | 8.5 | 100.0 |
| Swaziland | 86 | 48.7 | 34.4 | – | – | 11.4 | 100.0 |
| Zambia | 758 | 0.6 | 2.0 | – | 97.3 | – | 100.0 |
| *All developing countries* | 75 040 | 21.0 | 15.6 | 39.9 | 3.6[i] | 19.5 | 100.0 |

*Sources: Yearbook of International Trade Statistics, 1972-1973* (United Nations publication, Sales No. E.74.XVII.6), national and international sources, and estimates based on data provided by the Statistical Office of the United Nations.

NOTE. Owing to commodities not being specified for certain countries, components do not always add up to 100 per cent.

* Land-locked developing countries.

[a] Comprising non-ferrous metals (SITC 68), diamonds (SITC 667), and aluminium oxide and hydroxide (SITC 513.6 (5)).

[b] SITC 5 to 8 less non-ferrous metals (SITC 68), diamonds (SITC 667), aluminium oxide and hydroxide (SITC 513.6 (5)).

[c] Mainly carpets, etc. (SITC 657.5).

[d] Mainly jute fabrics, woven (SITC 653.4).

[e] Diamonds (SITC 667.2).

[f] Aluminium oxide, hydroxide (SITC 513.6 (5)).

[g] Copper (SITC 682).

[h] SITC 28 (non-ferrous ores and concentrates).

[i] SITC 5 to 8 less 68.

[j] Formerly Dahomey.

TABLE 7

**Relative importance of the main markets for exports of the hard-core least developed countries and certain land-locked developing countries, 1972**

| | *Developed market-economy countries* | *Developing countries* | *Socialist countries* | *Total all destinations* |
|---|---|---|---|---|
| *Hard-core least developed countries* | | | | |
| Afghanistan | 52.2 | 18.2 | 29.3 | 100.0 |
| Bangladesh | 35.9 | 55.5 | 8.5 | 100.0 |
| Benin[a] | 84.2 | 10.5 | – | 100.0 |
| Bhutan* | .. | .. | .. | .. |
| Botswana* | 100.0 | – | – | 100.0 |
| Burundi* | 96.6 | 3.4 | – | 100.0 |
| Central African Republic[b] | 95.4 | 4.0 | 0.2 | 100.0 |
| Chad* | 58.3 | 41.7 | – | 100.0 |
| Democratic Yemen[c] | 55.4 | 33.4 | – | 100.0 |
| Ethiopia | 75.2 | 19.4 | 5.5 | 100.0 |
| Gambia | 96.6 | 2.3 | – | 100.0 |
| Guinea | 74.3 | 2.8 | 22.9 | 100.0 |
| Haiti | 97.8 | 2.2 | – | 100.0 |
| Laos* | – | 100.0 | – | 100.0 |
| Lesotho* | 100.0 | – | – | 100.0 |
| Malawi* | 76.5 | 23.5 | – | 100.0 |
| Maldives | – | 100.0 | – | 100.0 |
| Mali* | 77.8 | 22.2 | – | 100.0 |
| Nepal* | 25.0 | 75.0 | – | 100.0 |
| Niger* | 75.9 | 20.1 | – | 100.0 |
| Rwanda* | 40.0 | 60.0 | – | 100.0 |
| Sikkim* | .. | .. | .. | .. |
| Somalia | 20.0 | 72.5 | 7.5 | 100.0 |
| Sudan | 48.0 | 33.2 | 18.4 | 100.0 |
| Uganda | 73.1 | 17.6 | 8.5 | 100.0 |
| United Republic of Tanzania | 43.9 | 47.6 | 7.2 | 100.0 |
| Upper Volta* | 40.0 | 60.0 | – | 100.0 |
| Western Samoa | 96.0 | 4.0 | – | 100.0 |
| Yemen | 31.1 | 46.7 | 22.2 | 100.0 |
| *Total* | 57.6 | 27.5 | 14.3 | 100.0 |
| *Other land-locked developing countries* | | | | |
| Bolivia[b] | 86.6 | 11.6 | – | 100.0 |
| Paraguay | 64.7 | 24.8 | – | 100.0 |
| Swaziland | 54.6 | .. | .. | 100.0 |
| Zambia | 84.8 | 12.3 | 2.8 | 100.0 |
| *All developing countries* | 74.4 | 20.6 | 4.6 | 100.0 |

*Sources: Yearbook of International Trade Statistics, 1974* (United Nations publication, Sales No. E.75.XVII.14), national and international sources, and estimates based on data provided by the Statistical Office of the United Nations.

*Note:* Totals of components do not always add up to 100 per cent, owing to destinations not being specified for certain countries.

* Land-locked developing countries.

[a] Formerly Dahomey.

[b] 1971.

[c] 1969.

TABLE 8

**Leading exports of hard-core least developed countries[a]**
**(ranked according to 1972 values)**

| *SITC* | *Item* | *Value in 1972 (million dollars)* | *As percentage of total least developed country exports* | *As percentage of all developing country exports of products shown* |
|---|---|---|---|---|
| 263 | Cotton . . . . . . . . . . . . . . | 396 | 17.9 | 19.7 |
| 071 | Coffee . . . . . . . . . . . . . . | 353 | 16.0 | 11.2 |
| 221 | Oil seeds . . . . . . . . . . . . . | 144 | 6.5 | 23.7 |
| 657 | Floor covering, tapestries, etc. | 141 | 6.4 | 61.5 |
| 332 | Petroleum products. . . . . . . | 104 | 4.7 | 2.5 |
| 264 | Jute. . . . . . . . . . . . . . . . | 94 | 4.3 | 53.9 |
| 051 | Fruit fresh, nuts, etc . . . . . . | 69 | 3.1 | 7.6 |
| 001 | Live animals . . . . . . . . . . . | 62 | 2.8 | 21.9 |
| 121 | Tobacco unmanufactured . . . | 58 | 2.6 | 11.5 |
| 211 | Hides and skins . . . . . . . . . | 57 | 2.4 | 21.2 |
| 074 | Tea and maté . . . . . . . . . . | 51 | 2.3 | 9.0 |
| 513 | Alumina . . . . . . . . . . . . . | 45 | 2.0 | 41.5 |
| 667 | Diamonds . . . . . . . . . . . . | 44 | 2.0 | 7.7 |
| 075 | Spices. . . . . . . . . . . . . . . | 42 | 1.9 | 15.9 |
| 292 | Crude vegetable materials n.e.s. | 39 | 1.8 | 12.4 |
| 011 | Meat, fresh, chilled or frozen . | 32 | 1.4 | 2.8 |
| 081 | Feeding stuff for animals . . . | 30 | 1.4 | 5.2 |
| 054 | Vegetables, fresh, etc. . . . . . | 21 | 1.0 | 3.8 |
| 265 | Vegetable fibres (excluding jute and cotton . . . . . . . | 21 | 1.0 | 22.9 |
| 682 | Copper . . . . . . . . . . . . . . | 19 | 0.9 | 1.0 |
| 042 | Rice. . . . . . . . . . . . . . . . | 19 | 0.9 | 4.4 |
| 341 | Gas, natural . . . . . . . . . . . | 18 | 0.8 | 5.7 |
| 052 | Dried fruits . . . . . . . . . . . | 18 | 0.8 | 16.4 |
| 212 | Fur skins, undressed . . . . . . | 16 | 0.7 | 76.2 |
| 283 | Non-ferrous base metal ore and concentrates . . . . . . | 16 | 0.7 | 0.9 |
| 421 | Fixed vegetable oils, soft. . . . | 14 | 0.6 | 4.2 |
| 013 | Meat and preparations . . . . . | 13 | 0.6 | 4.9 |
| 262 | Wool and other animal hair . . | 11 | 0.5 | 7.1 |
| 422 | Other fixed vegetable oils . . . | 9 | 0.4 | 1.6 |
| 286 | Uranium concentrates . . . . . | 9 | 0.4 | . . |
| 072 | Cocoa. . . . . . . . . . . . . . . | 8 | 0.4 | 0.9 |
| | TOTAL[b] (26 countries) . . . . | 2 210 | 100.0 | 8.4 |

*Sources:* United Nations, *Yearbook of International Trade Statistics, 1974 (op. cit);* Economic Commission for Africa, *Summaries of Economic Data* and national and national sources.

[a] Data for 26 of the least developed countries, accounting for about 90 per cent of the total exports of the 29 hard-core least developed countries.

[b] Including products not shown above.

TABLE 9

**Leading exports of selected hard-core least developed countries and certain land-locked developing countries**

| Country and leading export commodity and SITC group | Value of exports (million dollars) annual average 1970-1972 | Percentage share in total exports of country 1970-1972 | Growth rate per annum per cent 1967-1971 | Growth rate per annum per cent 1971-1972 | 1972 exports as percentage of: all developing countries | 1972 exports as percentage of: all countries[a] |
|---|---|---|---|---|---|---|
| A. *Selected hard-core least developed countries* | | | | | | |
| Afghanistan* | | | | | | |
| Fresh fruit (051) . . . . . . . . | 19.7 | 19.1 | −1.6 | 32.2 | 2.6 | 0.7 |
| Gas, natural (341) . . . . . . . | 15.3 | 14.9 | 40.2 | 17.6 | 5.6 | 1.3 |
| Fur skins, undressed (212). . . | 14.7 | 14.3 | −1.1 | −7.7 | 76.2 | 3.2 |
| Dried fruits (052). . . . . . . . | 12.4 | 12.0 | −14.9 | 141.8 | 16.4 | 6.6 |
| All exports. . . . . . . . . . . . | 103.0 | 100.0 | 4.0 | 24.6 | 0.2 | 0.0 |
| Bangladesh | | | | | | |
| Jute (264) . . . . . . . . . . . . | 92.6[b] | 27.4 | .. | .. | .. | .. |
| Woven textiles, non-cotton (653) . . . . . . | 71.2[b] | 21.1 | .. | .. | .. | .. |
| All exports. . . . . . . . . . . . | 338.0[b] | 100.0 | .. | .. | .. | .. |
| Benin[c] | | | | | | |
| Fixed vegetable oils (422) . . . | 9.0 | 24.3 | 24.5 | −40.6 | 1.4 | 1.1 |
| Cocoa (072) . . . . . . . . . . . | 8.5 | 23.0 | .. | −0.1 | 0.7 | 0.6 |
| Cotton (263) . . . . . . . . . . | 7.0 | 18.9 | 56.0 | −0.6 | 0.6 | 0.4 |
| All exports. . . . . . . . . . . . | 37.0 | 100.0 | 28.9 | −13.1 | 0.1 | 0.0 |
| Central African Republic* | | | | | | |
| Diamonds (667). . . . . . . . . | 12.1 | 36.3 | −4.1 | 7.4 | 2.1 | 0.4 |
| Cotton (263) . . . . . . . . . . | 7.7 | 23.1 | 2.9 | 22.7 | 0.3 | 0.3 |
| Coffee (071). . . . . . . . . . . | 7.2 | 21.6 | 7.1 | −7.3 | 0.3 | 0.3 |
| All exports. . . . . . . . . . . . | 33.3 | 100.0 | 2.6 | 15.7 | 0.1 | 0.0 |
| Chad* | | | | | | |
| Cotton (263) . . . . . . . . . . | 19.5 | 67.2 | −6.2 | 39.1 | 1.2 | 0.9 |
| All exports. . . . . . . . . . . . | 29.0 | 100.0 | −0.5 | 35.8 | 0.1 | 0.0 |
| Democratic Yemen | | | | | | |
| Petroleum products (332) . . . | 97.8[d] | 74.4[d] | −2.3 | .. | 2.3 | 0.9 |
| All exports. . . . . . . . . . . . | 131.4[d] | 100.0[d] | −6.5 | 1.9 | 0.2 | 0.0 |
| Ethiopia | | | | | | |
| Coffee (071). . . . . . . . . . . | 74.0 | 54.6 | 5.9 | 13.3 | 2.5 | 2.3 |
| All exports. . . . . . . . . . . . | 135.6 | 100.0 | 5.5 | 33.5 | 0.2 | 0.0 |
| Gambia | | | | | | |
| Oil seeds, nuts (221) . . . . . . | 8.1 | 54.4 | 19.1 | −23.0 | 1.2 | 0.3 |
| Fixed vegetable oils, soft (421) | 4.8 | 32.2 | −5.4 | −24.0 | 1.2 | 0.4 |
| All exports. . . . . . . . . . . . | 14.9 | 100.0 | 3.5 | −19.9 | 0.0 | 0.0 |
| Malawi* | | | | | | |
| Tobacco, unmanufactured (121) | 30.8 | 43.6 | 23.1 | 16.6 | 7.1 | 2.5 |
| Tea (074) . . . . . . . . . . . . | 14.2 | 20.1 | 3.9 | 3.8 | 2.6 | 2.4 |
| All exports. . . . . . . . . . . . | 70.6 | 100.0 | 7.2 | 14.3 | 0.1 | 0.0 |
| Mali* | | | | | | |
| Cotton (263) . . . . . . . . . . | 10.6 | 30.3 | 14.8 | 86.4 | 0.8 | 0.6 |
| Live animals (001) . . . . . . . | 10.3 | 29.4 | 24.3 | −6.7 | 3.3 | 0.5 |
| All exports. . . . . . . . . . . . | 35.0 | 100.0 | 21.5 | −6.7 | 0.1 | 0.0 |
| Niger* | | | | | | |
| Oil seeds, nuts (221) . . . . . . | 15.7 | 38.1 | −5.5 | 35.2 | 3.2 | 0.7 |
| Live animals (001) . . . . . . . | 7.3 | 17.7 | 20.1 | 38.2 | 3.6 | 0.5 |
| Non-ferrous metals (uranium) (286). . . . . . . | 5.3 | 12.9 | 239.2 | 19.8 | 0.5 | 19.2 |
| All exports. . . . . . . . . . . . . . | 41.2 | 100.0 | 10.7 | 37.1 | 0.1 | 0.0 |
| Rwanda* | | | | | | |
| Coffee (071). . . . . . . . . . . | 11.1 | 50.2 | 9.1 | −23.8 | 0.3 | 0.2 |
| Non-ferrous metals (tin) (283) | 8.0 | 36.2 | 12.7 | −18.0 | 0.6 | 0.3 |
| All exports. . . . . . . . . . . . | 2.1 | 100.0 | 12.4 | −12.7 | 0.0 | 0.0 |

TABLE 9

**Leading exports of selected hard-core least developed countries and certain land-locked developing countries**

| Country and leading export commodity and SITC group | Value of exports (million dollars) annual average 1970-1972 | Percentage share in total exports of country 1970-1972 | Growth rate per annum per cent | | 1972 exports as percentage of: | |
|---|---|---|---|---|---|---|
| | | | 1967-1971 | 1971-1972 | all developing countries | all countries[a] |
| Somalia | | | | | | |
| Live animals (001) . . . . . . . | 19.1 | 52.6 | 12.7 | 34.2 | 8.3 | 1.2 |
| Fresh fruit (bananas) (051) . . | 9.7 | 26.7 | −1.6 | 25.8 | 1.2 | 0.3 |
| All exports. . . . . . . . . . . . | 36.3 | 100.0 | 5.5 | 25.0 | 0.1 | 0.0 |
| Sudan | | | | | | |
| Cotton (263) . . . . . . . . . . | 199.9 | 61.3 | 14.1 | 7.1 | 10.6 | 8.1 |
| Oil seeds, nuts (221) . . . . . . | 52.2 | 16.0 | 7.6 | −1.1 | 9.3 | 2.1 |
| All exports. . . . . . . . . . . . | 326.0 | 100.0 | 11.5 | 8.1 | 0.5 | 0.1 |
| Uganda*[e] | | | | | | |
| Coffee (071). . . . . . . . . . . | 145.8 | 59.1 | 9.2 | 14.9 | 5.0 | 4.7 |
| Cotton (263) . . . . . . . . . . | 50.0 | 20.3 | 3.8 | 4.7 | 2.6 | 1.9 |
| All exports. . . . . . . . . . . . | 246.5 | 100.0 | 6.6 | 10.7 | 0.4 | 0.1 |
| United Republic of Tanzania[e] | | | | | | |
| Coffee (071). . . . . . . . . . . | 43.1 | 16.9 | −1.1 | 67.7 | 1.7 | 1.6 |
| Cotton (263) . . . . . . . . . . | 38.7 | 15.2 | −0.7 | 37.4 | 2.3 | 1.8 |
| All exports. . . . . . . . . . . . | 254.4 | 100.0 | 2.9 | 16.8 | 0.5 | 0.1 |
| Upper Volta* | | | | | | |
| Live animals (001) . . . . . . . | 6.3 | 34.8 | −11.0 | 28.3 | 2.9 | 0.4 |
| Oil seeds (221) . . . . . . . . . | 3.7 | 20.4 | 10.7 | −16.6 | 0.5 | 0.1 |
| All exports. . . . . . . . . . . . | 18.7 | 100.0 | −3.0 | 26.6 | 0.0 | 0.0 |
| Western Samoa | | | | | | |
| Oil seeds, nuts (221) . . . . . . | 2.6 | 49.1 | 21.6 | 2.8 | 0.3 | 0.1 |
| Cocoa (072). . . . . . . . . . . | 1.7 | 32.0 | −2.8 | −2.2 | 0.2 | 0.1 |
| All exports. . . . . . . . . . . . | 5.3 | 100.0 | 10.4 | −20.3 | 0.0 | 0.0 |
| B. *Other land-locked developing countries* | | | | | | |
| Bolivia | | | | | | |
| Non-ferrous base metal ore and concentrates (283) . . . . . | 150.1[f] | 75.8 | 7.8 | 2.9 | 12.6 | . . |
| Crude petroleum (221). . . . . | 23.0[f] | 11.6 | 1.1 | 32.6 | 0.2 | 0.0 |
| All exports. . . . . . . . . . . . | 198.1 | 100.0 | 5.5 | 11.3 | 0.4 | 0.1 |
| Paraguay | | | | | | |
| Meat, tinned or prepared (013). | 10.6[g] | 16.9 | 5.0 | 43.3 | 5.5 | 1.4 |
| Wood (242) . . . . . . . . . . . | 7.2[g] | 11.5 | 5.9 | −8.8 | 0.9 | 0.5 |
| Tobacco (121). . . . . . . . . . | 5.5[g] | 8.7 | 7.9 | 43.5 | 1.7 | 0.5 |
| Meat, fresh, chilled or frozen (011) . . . . . . . . . . . . . | 5.3[g] | 8.4 | . . | . . | 0.8 | 0.2 |
| All exports. . . . . . . . . . . . | 62.9[g] | 100.0 | 7.9 | 32.3 | 0.1 | 0.0 |
| Swaziland | | | | | | |
| Sugar (061) . . . . . . . . . . . | 18.7 | 23.8 | 5.0 | 66.8 | . . | . . |
| Iron ore (281). . . . . . . . . . | 14.3 | 18.2 | 4.8 | −23.0 | 1.2 | 0.5 |
| Wood pulp (242) . . . . . . . . | 13.3 | 16.9 | 14.9 | 15.7 | . . | . . |
| All exports . . . . . . . . . . . | 78.7 | 100.0 | 9.0 | 8.9 | 0.1 | 0.0 |
| Zambia | | | | | | |
| Copper (682) . . . . . . . . . . | 753.8 | 93.6 | 0.8 | 9.3 | 36.0 | 15.0 |
| All exports. . . . . . . . . . . . | 805.7 | 100.0 | 0.8 | 11.7 | 1.1 | 0.2 |

*Source:* FAO, *Statistics Trade Yearbook*, various issues; OECD, *Foreign Trade Statistics, Series B and C*, various issues: United Nations, *Yearbook of International Trade Statistics;* UNCTAD, *Handbook of International Trade and Development Statistics, 1972* (United Nations publication, Sales No. E/F.72.D.3).

* Land-locked developing countries.

[a] Excluding socialist countries.

[b] January to November 1971.

[c] Formerly Dahomey.

[d] 1969-1971.

[e] Excluding trade with other members o the East African Community.

[f] 1969.

[g] 1970.

TABLE 10

**Per capita foreign exchange receipts of the hard-core least developed countries (1965-1968 average, 1973 and 1974)**

**(In constant 1974 dollars)[a]**

| Country | *Export purchasing power* per capita | | | *External assistance* per capita[b] | | | *Total receipts* per capita | | |
|---|---|---|---|---|---|---|---|---|---|
| | *1965-1968* | *1973* | *1974* | *1965-1968* | *1973* | *1974* | *1965-1968* | *1973* | *1974* |
| Afghanistan | 8.8 | 8.1 | 8.1 | 6.5 | 6.5 | 1.9 | 15.3 | 14.6 | 10.0 |
| Bangladesh | 17.0 | 6.7 | 4.4 | 4.8[c] | 9.4 | 8.0 | 21.8 | 16.1 | 12.4 |
| Benin[d] | 12.9 | 27.7 | 19.0 | 16.2 | 12.7 | 11.1 | 29.1 | 40.4 | 30.1 |
| Bhutan | .. | .. | .. | 0.3 | 0.8 | 0.3 | .. | .. | .. |
| Botswana | 47.4 | 141.4 | 114.3 | 63.5 | 179.1 | 67.9 | 110.9 | 320.5 | 182.2 |
| Burundi | 8.3 | 11.8 | 7.7 | 6.3 | 11.8 | 9.6 | 14.6 | 23.6 | 17.3 |
| Central African Republic | 42.0 | 29.2 | 26.7 | 28.8 | 23.0 | 22.8 | 70.8 | 52.2 | 49.5 |
| Chad | 15.7 | 13.0 | 15.9 | 15.2 | 23.7 | 21.2 | 30.9 | 36.7 | 37.1 |
| Democratic Yemen | 263.0 | 98.9 | 119.4 | 35.7 | 6.0 | 25.0 | 298.7 | 104.9 | 144.4 |
| Ethiopia | 10.8 | 13.5 | 9.6 | 4.6 | 3.2 | 4.2 | 15.4 | 13.7 | 13.8 |
| Gambia | 96.0 | 83.6 | 97.5 | 16.3 | 18.4 | 18.0 | 112.3 | 104.7 | 115.5 |
| Guinea | 32.8 | 23.6 | 27.9 | 37.5 | 19.8 | 8.0 | 70.3 | 43.4 | 35.9 |
| Haiti | 17.5 | 14.1 | 13.6 | 2.6 | 2.0 | 3.5 | 20.1 | 16.1 | 17.1 |
| Laos | 2.5 | 2.2 | 1.8 | 54.5 | 32.0 | 18.7 | 57.0 | 34.2 | 20.5 |
| Lesotho | 15.4 | 19.8 | 16.0 | 32.1 | 19.8 | 20.8 | 47.5 | 39.6 | 36.8 |
| Malawi | 24.7 | 27.3 | 24.3 | 16.5 | 8.8 | 9.3 | 41.2 | 36.1 | 33.6 |
| Maldives | .. | .. | .. | 6.4 | 9.2 | 5.8 | .. | .. | .. |
| Mali | 5.9 | 9.1 | 7.5 | 18.5 | 19.4 | 25.0 | 24.4 | 28.5 | 32.5 |
| Nepal | 5.7 | 4.2 | 4.1 | 2.3 | 4.0 | 2.6 | 8.0 | 8.2 | 6.7 |
| Niger | 17.2 | 19.6 | 12.1 | 13.4 | 25.1 | 30.3 | 30.6 | 44.7 | 42.4 |
| Rwanda | 8.7 | 10.6 | 9.2 | 8.2 | 13.7 | 13.0 | 16.9 | 24.3 | 22.2 |
| Sikkim | .. | .. | .. | .. | .. | .. | .. | .. | .. |
| Somalia | 23.1 | 19.9 | 20.0 | 19.4 | 25.4 | 41.9 | 42.5 | 45.3 | 61.9 |
| Sudan | 33.6 | 38.2 | 20.0 | 3.9 | 8.3 | 15.4 | 37.5 | 46.5 | 35.4 |
| Uganda | 58.8 | 42.5 | 30.0 | 6.8 | 1.9 | 3.4 | 65.6 | 44.4 | 33.4 |
| United Republic of Tanzania | 42.1 | 36.2 | 28.9 | 7.5 | 16.4 | 17.6 | 49.6 | 52.6 | 46.5 |
| Upper Volta | 7.0 | 5.5 | 6.2 | 8.4 | 14.7 | 16.9 | 15.4 | 20.2 | 23.1 |
| Western Samoa | 82.7 | 106.0 | 60.0 | 10.8 | 32.3 | 12.0 | 93.5 | 138.3 | 72.0 |
| Yemen | 263.0 | 98.9 | 119.4 | 35.7 | 6.0 | 25.0 | 298.7 | 104.9 | 144.4 |
| *Total* (29 least developed countries) | 20.0 | 16.0 | 12.3 | 8.2 | 10.2 | 10.3 | 28.2 | 26.2 | 23.6 |
| *All other developing countries* | 56.3 | 77.6 | 110.4 | 11.9 | 11.6 | 10.5 | 68.2 | 89.2 | 120.9 |

*Source:* UNCTAD secretariat calculations.

[a] The 1965-1968 and 1973 export receipts and external assistance receipts are expressed in terms of their command over imports at 1974 prices.

[b] Net disbursements of loans and grants from developed market-economy countries and multilateral agencies, net disbursements of loans and grants from socialist and gross disbursement of loans and grants from members of OPEC.

[c] Estimate.

[d] Formerly Dahomey.

TABLE 11

**Composition of total financial flows: net disbursements *per capita***

*(In constant 1974 dollars)*

| | 29 hard-core least developed countries | | | All other developing countries | | |
|---|---|---|---|---|---|---|
| | Average 1965-1968 | 1973 | 1974 | Average 1965-1968 | 1973 | 1974 |
| *Total financial flows* | 9.09 | 10.90 | 11.14 | 16.71 | 19.75 | 16.19 |
| A. *Official development assistance* | 6.93[a] | 8.32 | 7.24 | 10.04[a] | 7.41 | 6.46 |
| *of which:* | | | | | | |
| Technical assistance | 2.84 | 2.19 | 1.88 | 1.86 | 2.16 | 1.60 |
| Other | 4.09 | 6.13 | 5.36 | 8.18 | 5.25 | 4.86 |
| Bilateral | 5.81 | 5.71 | 4.79 | 8.82 | 5.56 | 4.26 |
| Multilateral | 1.12 | 2.61 | 2.45 | 1.22 | 1.85 | 2.20 |
| Grants | 5.30 | 5.87 | 5.32 | 6.69 | 4.07 | 3.28 |
| Loans | 1.63 | 2.51 | 1.96 | 3.35 | 3.82 | 3.27 |
| B. *All other assistance* | 2.16 | 2.58 | 3.90 | 6.67 | 12.34 | 9.73 |
| *of which:* | | | | | | |
| Private | (0.95) | (0.92) | (0.63) | 6.46 | 9.05 | 6.87 |
| Other official flows | .. | 0.38 | −0.01 | .. | 1.62 | −0.08 |
| Loans from socialist countries | 1.21 | 0.97 | 0.55 | 0.21 | 0.63 | 0.77 |
| Financial flows from OPEC members[b] | – | 0.30 | 2.73 | – | 1.04 | 2.17 |
| *Value of imports* per capita *in constant 1974 dollars* | 26.31 | 24.17 | 22.05 | 64.34 | 83.27 | 87.90 |
| *Total financial flows as percentage of imports* | 34.5 | 45.0 | 50.5 | 26.0 | 23.7 | 18.4 |
| *Official development assistance flows as percentage of imports* | 26.3 | 34.4 | 32.8 | 15.6 | 8.9 | 7.3 |

*Source:* UNCTAD secretariat calculations.

[a] Total official flows.

[b] Gross disbursements.

## TABLE 12

**Flow of financial resources to the hard-core least developed countries from DAC member countries and multilateral agencies, 1970-1974 (summary): net disbursements**

| | *Total flows to the hard-core least developed countries (million dollars)* | | | | | *As percentage of total net loans and grants* | | | | | *As percentage of flow to all developing countries* | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| *Types of flows* | *1970* | *1971* | *1972* | *1973* | *1974* | *1970* | *1971* | *1972* | *1973* | *1974* | *1970* | *1971* | *1972* | *1973* | *1974* |
| 1. Bilateral official development assistance[a] | 432.36 | 519.88 | 710.86 | 943.90 | 1 152.87 | 68.2 | 66.2 | 65.8 | 63.1 | 65.0 | 7.8 | 8.3 | 11.0 | 13.6 | 14.1 |
| Grants | 321.79 | 375.92 | 667.38 | 696.94 | 856.90 | 50.8 | 47.9 | 61.8 | 46.6 | 48.3 | 9.8 | 10.5 | 15.5 | 15.7 | 15.7 |
| Loans | 70.57 | 103.96 | 43.48 | 246.96 | 295.97 | 11.1 | 13.2 | 4.0 | 16.5 | 16.7 | 3.1 | 3.9 | 2.0 | 9.9 | 10.4 |
| 2. Other official flows | −2.81 | 4.32 | 55.27 | 65.30 | −1.01 | −0.4 | 0.6 | 5.1 | 4.4 | −0.1 | −0.4 | 0.5 | 5.4 | 3.5 | −0.1 |
| 3. Bilateral and other official flows | 429.55 | 524.11 | 766.13 | 1 009.20 | 1 151.86 | 67.8 | 66.8 | 70.9 | 67.5 | 64.9 | 6.2 | 6.8 | 10.2 | 11.5 | 12.2 |
| 4. Guaranteed private export credits | 31.50 | 33.20 | 47.89 | 56.92 | 34.47 | 5.0 | 4.2 | 4.4 | 3.8 | 1.9 | 1.6 | 1.4 | 3.5 | 5.4 | 1.8 |
| 5. Total bilateral (net) loans and grants | 461.05 | 557.31 | 814.02 | 1 066.12 | 1 186.33 | 72.8 | 71.0 | 75.3 | 71.3 | 66.8 | 5.6 | 5.9 | 9.2 | 10.8 | 10.4 |
| 6. Multilateral flows[b] | 172.24 | 227.52 | 267.29 | 429.16 | 588.67 | 27.2 | 29.0 | 24.7 | 28.7 | 33.2 | 12.0 | 11.7 | 15.2 | 18.2 | 21.0 |
| 7. Total (net) loans and grants | 633.29 | 784.93 | 1 081.31 | 1 495.28 | 1 775.00 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | 6.5 | 6.9 | 10.2 | 12.2 | 12.5 |
| 8. Total[a] | 604.60 | 749.40 | 976.15 | 1 375.66 | 1 742.84 | 95.5 | 95.5 | 90.3 | 90.0 | 98.2 | 8.5 | 9.1 | 11.8 | 14.7 | 14.1 |
| *of which:* | | | | | | | | | | | | | | | |
| Technical assistance | 243.46 | 277.34 | 325.87 | 362.04 | 452.30 | 38.4 | 35.3 | 30.1 | 24.2 | 25.5 | 13.0 | 13.5 | 14.3 | 13.5 | 14.6 |
| Bilateral | 187.22 | 213.42 | 233.99 | 270.71 | 308.17 | 29.5 | 27.2 | 21.6 | 18.1 | 17.4 | 12.6 | 12.9 | 13.0 | 12.0 | 12.5 |
| Multilateral | 56.24 | 63.92 | 91.88 | 91.33 | 144.22 | 8.9 | 8.1 | 8.5 | 6.1 | 8.1 | 14.4 | 16.1 | 19.3 | 20.8 | 22.9 |

*Source:* UNCTAD secretariat, based on information received from the OECD/DAC secretariat.

[a] Includes approximately 40 million per year in 1970 and 1971 from France to the following five least developed countries: Benin, Chad, Mali, Niger and Upper Volta. The available data do not show the allocation among them.

[b] Total multilateral flows, including small amounts of net purchases of IBRD and Inter-American Development Bank securities by the least developed countries.

TABLE 13

**Net flow of loans and grants to the hard-core least developed countries and certain land-locked developing countries from DAC member countries and multilateral agencies, 1965-1974**

| Countries | *Net loans and grants*[a] | | | | | | | | | | | | | | *1974 value of net loans and grants* | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | *Total (million dollars)* | | | | | | | *Per capita (dollars)* | | | | | | | *As percentage of GNP 1974*[b] | *As percentage of imports 1974* |
| | *Average 1965-1968* | *1969* | *1970* | *1971* | *1972* | *1973* | *1974* | *Average 1965-1968* | *1969* | *1970* | *1971* | *1972* | *1973* | *1974* | | |
| *Hard-core least developed countries* | | | | | | | | | | | | | | | | |
| Afghanistan* | 46.11 | 28.19 | 18.78 | 47.24 | 51.28 | 48.91 | 28.01 | 2.9 | 1.7 | 1.1 | 2.7 | 2.9 | 2.7 | 1.5 | 1.9 | 11.7 |
| Bangladesh | .. | .. | .. | 15.36 | 205.33 | 434.19 | 496.94 | .. | .. | .. | 0.2 | 2.9 | 5.9 | 6.6 | 6.3 | 45.3 |
| Benin[d] | 18.08 | 15.47 | 14.95 | 29.22 | 18.61 | 25.99 | 33.77 | 7.3 | 5.9 | 5.6 | 10.6 | 6.5 | 8.9 | 11.1 | 9.2 | 25.0 |
| Bhutan | 0.09 | 0.10 | 0.21 | 0.14 | 0.17 | 0.52 | 0.65 | 0.1 | 0.1 | 0.3 | 0.2 | 0.2 | 0.6 | 0.7 | .. | .. |
| Botswana* | 15.58 | 13.41 | 14.25 | 17.72 | 87.75 | 81.99 | 43.48 | 28.9 | 23.5 | 24.6 | 30.6 | 139.3 | 126.1 | 65.9 | 18.6 | 29.6 |
| Burundi* | 9.51 | 14.88 | 17.10 | 21.86 | 24.83 | 28.79 | 33.35 | 2.9 | 4.3 | 4.8 | 6.0 | 7.1 | 8.0 | 9.1 | 11.6 | 81.3 |
| Central African Republic* | 19.49 | 18.57 | 13.39 | 15.12 | 27.41 | 27.66 | 35.02 | 13.1 | 11.8 | 8.3 | 9.2 | 16.3 | 16.2 | 20.0 | 11.5 | 76.1 |
| Chad* | 23.47 | 21.99 | 21.44 | 29.28 | 29.85 | 45.08 | 64.60 | 6.9 | 6.2 | 5.9 | 7.8 | 7.9 | 11.6 | 16.4 | 16.9 | 53.8 |
| Democratic Yemen | 21.11 | 1.94 | 3.83 | 3.81 | 5.56 | 6.61 | 13.59 | 16.2 | 1.4 | 2.7 | 2.6 | 3.7 | 4.2 | 8.3 | 7.5 | 7.3 |
| Ethiopia | 43.51 | 50.06 | 47.37 | 56.12 | 50.78 | 59.10 | 114.09 | 1.9 | 2.1 | 1.9 | 2.2 | 2.0 | 2.2 | 4.2 | 5.1 | 41.5 |
| Gambia | 3.19 | 3.64 | 1.29 | 3.80 | 4.90 | 6.35 | 8.83 | 7.4 | 8.1 | 2.9 | 7.9 | 10.0 | 13.0 | 17.3 | 12.1 | 20.5 |
| Guinea | 14.35 | 15.29 | 32.93 | 29.74 | 51.98 | 58.76 | 1.17 | 3.9 | 4.0 | 8.4 | 7.4 | 12.6 | 14.0 | 0.3 | 0.2 | 1.5 |
| Haiti | 4.78 | 5.19 | 7.26 | 6.58 | 1.55 | 6.22 | 13.00 | 1.2 | 1.2 | 1.7 | 1.5 | 0.4 | 1.4 | 2.9 | 1.8 | 13.1 |
| Laos* | 67.65 | 67.24 | 69.29 | 72.95 | 66.94 | 71.61 | 62.48 | 24.8 | 23.3 | 23.4 | 24.1 | 21.5 | 22.5 | 19.2 | 18.9 | 62.5 |
| Lesotho* | 12.56 | 13.23 | 9.92 | 16.73 | 14.07 | 13.79 | 21.29 | 14.6 | 14.5 | 10.7 | 17.6 | 14.5 | 13.9 | 20.9 | 20.7 | 23.7 |
| Malawi* | 30.56 | 27.22 | 39.97 | 32.01 | 45.93 | 29.62 | 39.18 | 7.5 | 6.3 | 9.0 | 7.0 | 9.8 | 6.2 | 8.0 | 7.1 | 21.2 |
| Maldives | 0.29 | 0.17 | 0.24 | 0.85 | 0.61 | 0.78 | 1.11 | 2.9 | 1.5 | 2.2 | 7.7 | 5.5 | 6.5 | 9.3 | .. | .. |
| Mali* | 20.42 | 20.82 | 20.50 | 36.82 | 40.55 | 69.62 | 108.33 | 4.3 | 4.2 | 4.1 | 7.2 | 7.7 | 12.9 | 19.5 | 25.5 | 85.3 |
| Nepal* | 11.01 | 7.81 | 24.33 | 23.41 | 29.95 | 34.09 | 34.38 | 1.1 | 0.7 | 2.2 | 2.0 | 2.5 | 2.8 | 2.8 | 3.0 | 43.0 |
| Niger* | 22.38 | 36.01 | 41.35 | 49.48 | 41.40 | 73.11 | 173.93 | 6.1 | 9.2 | 10.3 | 12.0 | 9.8 | 17.0 | 30.8 | 24.4 | 143.7 |
| Rwanda* | 12.34 | 17.81 | 22.57 | 25.11 | 29.87 | 38.61 | 46.05 | 3.7 | 5.0 | 6.1 | 6.6 | 7.7 | 9.6 | 11.2 | 16.8 | 121.3 |
| Sikkim* | .. | .. | .. | .. | .. | .. | .. | .. | .. | .. | .. | .. | .. | .. | .. | .. |
| Somalia | 21.05 | 34.77 | 30.15 | 33.22 | 28.44 | 33.80 | 37.64 | 8.1 | 12.7 | 10.8 | 11.6 | 9.7 | 11.2 | 12.2 | 15.3 | 34.2 |
| Sudan | 24.21 | 20.75 | 12.75 | 15.58 | 44.80 | 89.69 | 90.53 | 1.7 | 1.4 | 0.8 | 1.0 | 2.7 | 5.3 | 5.2 | 4.2 | 14.1 |
| Uganda* | 27.30 | 39.15 | 39.00 | 40.15 | 33.40 | 9.23 | 2.25 | 3.1 | 4.1 | 4.0 | 4.0 | 3.2 | 0.9 | 0.2 | 0.2 | 1.1 |
| United Republic of Tanzania | 38.66 | 59.06 | 56.42 | 76.95 | 93.32 | 118.03 | 163.64 | 3.2 | 4.6 | 4.3 | 5.6 | 6.7 | 8.2 | 11.1 | 9.0 | 20.2 |
| Upper Volta* | 19.14 | 24.03 | 22.13 | 29.29 | 34.97 | 59.00 | 94.65 | 3.8 | 4.6 | 4.1 | 5.3 | 6.2 | 10.2 | 16.0 | 20.0 | 111.4 |
| Western Samoa | 0.64 | 0.56 | 1.52 | 2.04 | 2.22 | 3.41 | 4.51 | 4.9 | 4.0 | 10.9 | 13.6 | 14.8 | 22.7 | 28.2 | .. | 17.3 |
| Yemen | 21.11 | 5.12 | 10.35 | 14.35 | 14.84 | 20.72 | 44.53 | 0.7 | 0.9 | 1.8 | 2.4 | 2.4 | 3.3 | 6.9 | 9.5 | 23.1 |
| *Total* | 530.99 | 562.48 | 633.29[c] | 784.93[c] | 1 081.31 | 1 495.28 | 1 775.00 | 3.9 | 3.8 | 4.2 | 3.5 | 4.7 | 6.4 | 7.4 | 7.1 | 33.5 |
| *Other land-locked developing countries* | | | | | | | | | | | | | | | | |
| Bolivia | 42.67 | 50.48 | 36.01 | 67.35 | 58.54 | 41.76 | 66.75 | 9.5 | 10.5 | 7.3 | 13.3 | 11.3 | 7.8 | 12.2 | 6.2 | 16.7 |
| Paraguay | 20.45 | 22.48 | 20.54 | 26.55 | 19.08 | 18.23 | 32.07 | 9.6 | 9.7 | 8.6 | 10.7 | 7.4 | 6.8 | 12.5 | 3.0 | 21.0 |
| Swaziland | 11.09 | 10.78 | 10.85 | 1.75 | 9.40 | 9.46 | 19.21 | 29.2 | 26.3 | 25.8 | 4.0 | 20.9 | 20.6 | 40.0 | 12.9 | 19.6 |
| Zambia | 55.52 | 38.67 | 13.76 | 18.42 | 74.11 | 121.98 | 186.79 | 14.4 | 9.5 | 3.3 | 4.3 | 16.8 | 26.3 | 39.2 | 7.3 | 23.9 |
| *Total: all developing countries* | 7 566.98 | 8 743.80 | 9 690.04 | 11 395.89 | 10 631.90 | 12 215.62 | 14 207.83 | 4.9 | 5.3 | 5.7 | 6.5 | 6.1 | 6.8 | 7.5 | 2.4 | 2.3 |

*Source:* UNCTAD secretariat, based on information received from the OECD/DAC secretariat.

* Land-locked developing countries.

[a] Bilateral and multilateral official loan and grant receipts plus guaranteed export credits

[b] 1974 GNP expressed in dollars at 1973 prices.

[c] Including approximately $40 million per year in 1970 and 1971 from France to the following five least developed countries: Benin, Chad, Mali, Niger and Upper Volta. The available data do not show the allocation among them.

TABLE

**Official development assistance to hard-core least developed countries and certain land-locked**

*(Million*

A. TOTAL AND BILATERAL OFFICIAL

| | Total | | | | | | |
|---|---|---|---|---|---|---|---|
| | *1965-1968*[a] | *1969* | *1970* | *1971* | *1972* | *1973* | *1974* |
| *Hard-core least developed countries* | | | | | | | |
| Afghanistan* | 42.54 | 26.51 | 27.71 | 47.23 | 55.57 | 55.22 | 33.10 |
| Bangladesh | .. | .. | .. | 15.36 | 205.18 | 423.25 | 486.89 |
| Benin[c] | 17.37 | 13.28 | 14.95 | 29.24 | 20.34 | 26.27 | 33.66 |
| Bhutan* | 0.09 | 0.10 | 0.21 | 0.14 | 0.17 | 0.52 | 0.65 |
| Botswana* | 15.58 | 13.41 | 14.19 | 17.62 | 43.29 | 49.42 | 42.42 |
| Burundi* | 9.51 | 14.60 | 17.23 | 21.30 | 25.10 | 26.38 | 33.51 |
| Central African Republic* | 17.15 | 19.85 | 14.40 | 15.55 | 25.83 | 25.48 | 35.93 |
| Chad* | 19.66 | 23.78 | 22.30 | 30.47 | 31.11 | 42.20 | 65.92 |
| Democratic Yemen | 21.08 | 1.81 | 3.74 | 4.39 | 5.57 | 7.20 | 11.21 |
| Ethiopia | 36.09 | 45.75 | 42.76 | 56.26 | 53.22 | 68.51 | 122.57 |
| Gambia | 3.17 | 3.67 | 1.32 | 3.55 | 4.95 | 6.41 | 8.84 |
| Guinea | 13.80 | 15.81 | 25.23 | 33.71 | 26.89 | 25.38 | 5.51 |
| Haiti | 4.85 | 4.11 | 7.65 | 5.52 | 2.73 | 5.72 | 15.08 |
| Laos* | 67.69 | 66.77 | 69.25 | 72.35 | 66.72 | 75.46 | 60.66 |
| Lesotho* | 12.56 | 13.23 | 9.92 | 16.73 | 14.07 | 13.79 | 21.29 |
| Malawi* | 30.08 | 27.38 | 36.71 | 32.88 | 37.11 | 30.35 | 42.32 |
| Maldives | 0.29 | 0.17 | 0.24 | 0.85 | 0.61 | 0.58 | 0.81 |
| Mali* | 19.98 | 23.24 | 21.01 | 30.87 | 38.71 | 69.87 | 106.12 |
| Nepal* | 11.63 | 10.70 | 23.33 | 23.91 | 29.95 | 34.87 | 34.17 |
| Niger* | 23.00 | 33.24 | 31.47 | 37.94 | 43.17 | 70.95 | 139.00 |
| Rwanda* | 12.24 | 17.67 | 21.69 | 25.24 | 29.85 | 38.81 | 46.00 |
| Sikkim* | .. | .. | .. | .. | .. | .. | .. |
| Somalia | 21.67 | 32.71 | 27.81 | 30.53 | 23.85 | 35.63 | 33.47 |
| Sudan | 23.25 | 16.53 | 11.95 | 9.94 | 37.13 | 37.84 | 51.49 |
| United Republic of Tanzania | 36.62 | 40.34 | 52.45 | 68.45 | 74.21 | 105.28 | 162.94 |
| Uganda* | 21.66 | 26.37 | 32.47 | 31.24 | 28.85 | 16.68 | 11.86 |
| Upper Volta* | 19.00 | 23.93 | 22.03 | 29.29 | 34.92 | 59.56 | 92.45 |
| Western Samoa | 0.64 | 0.56 | 1.52 | 2.01 | 2.23 | 3.42 | 4.52 |
| Yemen | 3.40 | 2.77 | 11.06 | 14.83 | 14.82 | 20.61 | 40.45 |
| *Total* | 504.60 | 518.29 | 564.60 | 707.40[d] | 976.15 | 1 375.66 | 1 742.84 |
| *Other land-locked developing countries* | | | | | | | |
| Bolivia | 35.84 | 35.34 | 32.41 | 61.14 | 58.41 | 27.56 | 60.99 |
| Paraguay | 15.73 | 22.78 | 19.98 | 23.97 | 22.66 | 23.96 | 38.50 |
| Swaziland | 11.07 | 10.75 | 6.14 | 1.90 | 8.67 | 9.96 | 16.91 |
| Zambia | 37.79 | 24.73 | 12.99 | 23.97 | 31.60 | 65.15 | 101.72 |
| *Total developing countries* | 5 584.39 | 6 575.32 | 7 135.97 | 8 201.47 | 8 258.34 | 9 352.01 | 12 381.76 |

*Source:* UNCTAD secretariat, based on information received from the OECD/DAC secretariat.

* Land-locked developing countries.

[a] Bilateral official flows.

[b] Donors providing 10 per cent or more of total receipts, shown in descending order of magnitude of donation.

14

**developing countries from DAC member countries and multilateral agencies, 1965-1974**

*dollars)*

DEVELOPMENT ASSISTANCE

| *Leading donors in 1974*[b] | *Bilateral* | | | | | | |
|---|---|---|---|---|---|---|---|
| | *1965-1968*[a] | *1969* | *1970* | *1971* | *1972* | *1973* | *1974* |
| United States of America, UNDP | 39.39 | 21.91 | 21.35 | 37.94 | 40.90 | 43.22 | 16.90 |
| United States, IDA, Federal Republic of Germany | .. | .. | .. | 9.37 | 198.66 | 305.44 | 344.15 |
| France, EDF, IDA | 11.95 | 8.06 | 8.22 | 20.80 | 12.33 | 13.53 | 18.53 |
| UNDP, Australia, Japan, UNICEF | 0.09 | 0.10 | 0.21 | 0.14 | 0.17 | 0.51 | 0.30 |
| United Kingdom, Sweden, IBRD, Norway | 14.32 | 13.16 | 9.26 | 13.59 | 29.21 | 30.90 | 29.92 |
| Belgium, EDF, France | 7.30 | 10.45 | 11.57 | 13.50 | 16.45 | 15.20 | 18.73 |
| France, EDF | 12.49 | 13.79 | 9.21 | 8.53 | 14.33 | 15.05 | 18.55 |
| France, EDF | 13.90 | 14.31 | 14.75 | 21.95 | 25.11 | 26.41 | 37.88 |
| United States, EDF | 26.34 | 30.21 | 32.66 | 37.46 | 37.29 | 49.11 | 79.81 |
| United Kingdom, WFP, IDA, EDF, United States | 3.10 | 3.41 | 1.01 | 2.35 | 3.24 | 3.33 | 3.74 |
| United States, Japan, UNDP, WFP, Canada | 12.39 | 10.93 | 6.99 | 6.35 | 1.35 | 17.26 | 5.09 |
| United States, UNDP, France | 4.23 | 3.24 | 5.24 | 4.29 | 4.96 | 5.03 | 9.36 |
| United States, Japan | 66.93 | 66.08 | 68.46 | 70.98 | 65.45 | 75.20 | 57.28 |
| United Kingdom, WFP, United States, UNDP | 11.12 | 11.35 | 6.17 | 11.97 | 9.64 | 8.22 | 12.61 |
| United Kingdom, IDA, Denmark | 29.21 | 21.71 | 25.91 | 22.92 | 26.67 | 22.02 | 30.53 |
| UNDP, UNTA, Australia | 0.22 | 0.05 | 0.11 | 0.73 | 0.43 | 0.35 | 0.20 |
| EDF, France, United States, Federal Republic of Germany | 10.15 | 14.50 | 9.79 | 16.62 | 23.05 | 34.95 | 60.15 |
| United Kingdom, United States, AsDB, UNDP | 10.99 | 8.75 | 20.36 | 19.26 | 24.63 | 25.07 | 20.52 |
| EDF, France, United States | 16.62 | 26.22 | 21.16 | 24.69 | 26.44 | 42.07 | 82.61 |
| Belgium, EDF, France | 10.05 | 14.07 | 16.73 | 19.82 | 23.08 | 26.23 | 31.58 |
| | .. | .. | .. | .. | .. | .. | .. |
| EDF, IDA, Italy, UNDP | 17.21 | 21.18 | 17.86 | 21.74 | 11.60 | 19.31 | 7.32 |
| Federal Republic of Germany, WFP, UNDP | 15.69 | 2.54 | –0.15 | –1.75 | 9.90 | 16.78 | 33.21 |
| Sweden, Canada, Denmark | 32.78 | 27.71 | 37.90 | 48.85 | 50.81 | 86.76 | 140.21 |
| Federal Republic of Germany, Netherlands, UNDP, IDA | 20.41 | 17.82 | 24.38 | 20.28 | 21.27 | 9.06 | 6.83 |
| France, EDF | 13.40 | 15.16 | 13.71 | 15.90 | 22.75 | 36.33 | 50.20 |
| New Zealand, UNDP, United States | 0.34 | 0.15 | 0.31 | 0.34 | 0.38 | 2.09 | 4.29 |
| Federal Republic of Germany, United States, UNDP | 2.79 | 1.77 | 7.92 | 9.16 | 9.02 | 14.42 | 27.42 |
| United Kingdom, UNDP | 20.84 | 1.46 | 1.27 | 2.10 | 1.74 | 2.75 | 4.95 |
| | 424.25 | 380.19 | 392.36 | 479.88 | 710.86 | 943.90 | 1 152.87 |
| United States, IDA, IDB, Federal Republic of Germany | 32.39 | 29.48 | 25.76 | 23.84 | 42.51 | 17.64 | 36.98 |
| IDB, United States, Federal Republic of Germany, EDF | 6.49 | 11.64 | 9.43 | 12.87 | 11.42 | 12.45 | 15.30 |
| United Kingdom, UNDP | 10.50 | 9.21 | 5.08 | 0.66 | 6.49 | 8.31 | 11.94 |
| IBRD, United Kingdom | 40.31 | 17.89 | 9.99 | 17.44 | 16.47 | 39.80 | 52.14 |
| | 5 757.31 | 5 351.59 | 5 565.56 | 6 245.74 | 6 476.13 | 6 935.61 | 8 159.58 |

[c] Formerly Dahomey.

[d] Excluding approximately $40 million per year in 1970 and 1971 from France to the following five least developed countries: Benin, Chad, Mali, Niger and Upper Volta. The available data do not show the allocation among them.

TABLE 14

**Official development assistance to hard-core least developed countries and certain land-locked**

*(Million*

B. MULTILATERAL OFFICIAL

| | *Non-concessional* | | | | | | |
|---|---|---|---|---|---|---|---|
| | *1965-1968* | *1969* | *1970* | *1971* | *1972* | *1973* | *1974* |
| *Hard-core least developed countries* | | | | | | | |
| Afghanistan* | –0.54 | –0.48 | –0.48 | – | –0.20 | –0.33 | –0.30 |
| Bangladesh | .. | .. | .. | – | –11.50 | 3.34 | –1.45 |
| Benin[b] | –0.02 | –0.04 | – | – | – | –0.21 | –0.22 |
| Bhutan* | – | – | – | – | – | – | – |
| Botswana* | – | – | – | – | 11.85 | 13.38 | 5.62 |
| Burundi* | –0.21 | –0.27 | –0.53 | –0.43 | –0.32 | –0.48 | –0.35 |
| Central African Republic* | – | – | –0.02 | – | – | –0.11 | –0.18 |
| Chad* | –0.01 | – | –0.07 | –0.08 | – | – | –0.13 |
| Democratic Yemen | – | –0.20 | –0.15 | – | – | –0.10 | – |
| Ethiopia | 4.17 | 6.98 | 2.92 | 9.23 | 6.19 | 2.82 | –2.36 |
| Gambia | –0.03 | – | – | – | – | –0.03 | –0.04 |
| Guinea | 0.18 | 3.45 | 14.94 | 24.15 | 22.10 | 5.66 | –2.03 |
| Haiti | –0.34 | –0.22 | 0.78 | –0.56 | –4.37 | –2.09 | 0.53 |
| Laos* | –0.03 | –0.04 | –0.04 | 0.46 | 0.07 | 1.67 | 0.87 |
| Lesotho* | – | – | – | – | –0.02 | –0.13 | –0.08 |
| Malawi* | –0.16 | –0.20 | –0.23 | 1.27 | 0.88 | 0.75 | 0.17 |
| Maldives | – | – | – | – | – | – | – |
| Mali* | –0.35 | – | –0.28 | 0.54 | 0.04 | 0.03 | –0.10 |
| Nepal* | –0.68 | –0.22 | –0.11 | 1.02 | 1.04 | 2.56 | 4.37 |
| Niger* | –0.25 | –0.12 | –0.12 | – | – | 0.75 | 0.51 |
| Rwanda* | –0.19 | – | –0.09 | – | – | – | – |
| Sikkim* | .. | .. | .. | .. | .. | .. | .. |
| Somalia | –0.30 | – | – | –0.16 | 0.14 | 0.32 | 0.43 |
| Sudan | 3.74 | 7.49 | 5.56 | –0.21 | 0.45 | –3.97 | –4.13 |
| United Republic of Tanzania | –2.95 | 1.22 | 1.24 | 7.15 | 15.64 | 9.13 | 7.18 |
| Uganda* | –0.39 | –0.88 | –0.52 | –0.49 | –0.44 | 2.19 | 0.23 |
| Upper Volta* | –0.21 | –0.10 | – | 0.45 | 0.34 | 1.15 | 0.85 |
| Western Samoa | – | – | 0.56 | 0.89 | 0.74 | 0.43 | – |
| Yemen | – | – | – | – | – | – | – |
| *Total* | 1.43 | 16.37 | 23.36 | 43.23 | 42.63 | 36.73 | 9.39 |
| *Other land-locked developing countries* | | | | | | | |
| Bolivia | –1.34 | 2.04 | 2.86 | 29.10 | 10.58 | 3.51 | 6.54 |
| Paraguay | 4.24 | 8.69 | 6.82 | 7.77 | 7.74 | 9.32 | 15.94 |
| Swaziland | 0.32 | 1.25 | 0.19 | –0.34 | –0.30 | –0.48 | –0.58 |
| Zambia | –2.69 | 4.51 | 0.09 | 2.30 | 9.84 | 21.02 | 44.97 |
| *Total: All developing countries* | 211.46 | 506.69 | 783.44 | 964.48 | 718.09 | 902.63 | 2 097.00 |

*Source:* UNCTAD secretariat, based on information from the OECD/DAC secretariat.

* Land-locked developing countries.

[a] Flows from IDA, EDF and United Nations (grant element more than 25 per cent).

[b] Formerly Dahomey.

*(continued)*

**developing countries from DAC member countries and multilateral agencies, 1965-1974**

*dollars)*

DEVELOPMENT ASSISTANCE

| *Concessional*[a] | | | | | | | *Total multilateral* | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| *1965-1968* | *1969* | *1970* | *1971* | *1972* | *1973* | *1974* | *1965-1968* | *1969* | *1970* | *1971* | *1972* | *1973* | *1974* |
| 3.69 | 5.08 | 6.84 | 9.29 | 14.87 | 12.33 | 16.50 | 3.15 | 4.60 | 6.36 | 9.29 | 14.67 | 12.00 | 16.20 |
| .. | .. | .. | 5.99 | 18.02 | 114.47 | 144.19 | .. | .. | .. | 5.99 | 6.52 | 117.81 | 142.74 |
| 5.44 | 5.26 | 6.73 | 8.44 | 8.01 | 12.95 | 15.35 | 5.42 | 5.22 | 6.73 | 8.44 | 8.01 | 12.74 | 15.13 |
| – | – | – | – | – | 0.01 | 0.35 | – | – | – | – | – | 0.01 | 0.35 |
| 1.26 | 0.25 | 4.93 | 4.03 | 2.23 | 5.14 | 6.88 | 1.26 | 0.25 | 4.93 | 4.03 | 14.08 | 18.52 | 12.50 |
| 2.42 | 4.42 | 6.19 | 8.23 | 8.97 | 11.66 | 15.13 | 2.21 | 4.15 | 5.66 | 7.80 | 8.65 | 11.18 | 14.78 |
| 4.66 | 6.06 | 5.21 | 7.02 | 11.50 | 10.54 | 17.56 | 4.66 | 6.06 | 5.19 | 7.02 | 11.50 | 10.43 | 17.38 |
| 5.77 | 9.47 | 7.62 | 8.60 | 6.00 | 15.79 | 28.17 | 5.76 | 9.47 | 7.55 | 8.52 | 6.00 | 15.79 | 28.04 |
| 0.24 | 0.55 | 2.62 | 2.29 | 3.83 | 4.55 | 6.26 | 0.24 | 0.35 | 2.47 | 2.29 | 3.83 | 4.45 | 6.26 |
| 5.58 | 8.56 | 7.18 | 9.57 | 9.74 | 16.58 | 45.12 | 9.75 | 15.54 | 10.10 | 18.80 | 15.93 | 19.40 | 42.76 |
| 0.10 | 0.26 | 0.31 | 1.20 | 1.71 | 3.11 | 5.14 | 0.07 | 0.26 | 0.31 | 1.20 | 1.71 | 3.08 | 5.10 |
| 1.23 | 1.43 | 3.30 | 3.21 | 3.44 | 2.46 | 2.45 | 1.41 | 4.88 | 18.24 | 27.36 | 25.54 | 8.12 | 0.42 |
| 0.96 | 0.99 | 1.63 | 1.79 | 2.14 | 2.78 | 5.19 | 0.62 | 0.77 | 2.41 | 1.23 | −2.23 | 0.69 | 5.72 |
| 0.79 | 0.73 | 0.83 | 0.91 | 1.20 | 1.29 | 2.51 | 0.76 | 0.69 | 0.79 | 1.37 | 1.27 | 2.96 | 3.38 |
| 1.44 | 1.88 | 3.75 | 4.76 | 4.45 | 5.70 | 8.76 | 1.44 | 1.88 | 3.75 | 4.76 | 4.43 | 5.57 | 8.68 |
| 1.03 | 5.87 | 11.03 | 8.69 | 9.56 | 7.58 | 11.62 | 0.87 | 5.67 | 10.80 | 9.96 | 10.44 | 8.33 | 11.79 |
| 0.07 | 0.12 | 0.13 | 0.12 | 0.18 | 0.23 | 0.61 | 0.07 | 0.12 | 0.13 | 0.12 | 0.18 | 0.23 | 0.61 |
| 10.18 | 8.74 | 11.50 | 13.71 | 15.62 | 34.89 | 46.07 | 9.83 | 8.74 | 11.22 | 14.25 | 15.66 | 34.92 | 45.97 |
| 1.32 | 2.17 | 3.08 | 3.63 | 4.28 | 7.24 | 9.28 | 0.64 | 1.95 | 2.97 | 4.65 | 5.32 | 9.80 | 13.65 |
| 6.63 | 7.14 | 10.43 | 13.25 | 16.73 | 28.13 | 55.88 | 6.38 | 7.02 | 10.31 | 13.25 | 16.73 | 28.88 | 56.39 |
| 2.38 | 3.60 | 5.05 | 5.42 | 6.77 | 12.58 | 14.42 | 2.19 | 3.60 | 4.96 | 5.42 | 6.77 | 12.58 | 14.42 |
| .. | .. | .. | .. | .. | .. | .. | .. | .. | .. | .. | .. | .. | .. |
| 4.76 | 11.53 | 9.95 | 8.95 | 12.11 | 16.00 | 25.72 | 4.46 | 11.53 | 9.95 | 8.79 | 12.25 | 16.32 | 26.15 |
| 3.82 | 6.50 | 6.54 | 11.90 | 26.78 | 25.03 | 22.41 | 7.56 | 13.99 | 12.10 | 11.69 | 27.23 | 21.06 | 18.28 |
| 6.79 | 11.41 | 13.31 | 12.45 | 7.76 | 9.39 | 15.55 | 3.84 | 12.63 | 14.55 | 19.60 | 23.40 | 18.52 | 22.73 |
| 1.64 | 9.43 | 8.61 | 11.45 | 8.02 | 5.43 | 4.80 | 1.25 | 8.55 | 8.09 | 10.96 | 7.58 | 7.62 | 5.03 |
| 5.81 | 8.87 | 8.32 | 12.94 | 11.83 | 22.08 | 41.40 | 5.60 | 8.77 | 8.32 | 13.39 | 12.17 | 23.23 | 42.25 |
| 0.30 | 0.41 | 0.65 | 0.78 | 1.11 | 0.90 | 0.23 | 0.30 | 0.41 | 1.21 | 1.67 | 1.85 | 1.33 | .23 |
| 0.61 | 1.00 | 3.14 | 5.67 | 5.80 | 6.19 | 13.03 | 0.61 | 1.00 | 3.14 | 5.67 | 5.80 | 6.19 | 13.03 |
| 78.92 | 121.73 | 148.88 | 184.29 | 222.66 | 395.03 | 580.58 | 80.35 | 138.10 | 172.24 | 227.52 | 265.29 | 431.76 | 589.97 |
| 4.79 | 3.82 | 3.79 | 8.20 | 5.32 | 6.41 | 17.47 | 3.45 | 5.86 | 6.65 | 37.30 | 15.90 | 9.92 | 24.01 |
| 5.00 | 2.45 | 3.73 | 3.33 | 3.50 | 2.19 | 7.26 | 9.24 | 11.14 | 10.55 | 11.10 | 11.24 | 11.51 | 23.20 |
| 0.35 | 0.29 | 0.87 | 1.58 | 2.48 | 2.13 | 5.55 | 0.67 | 1.54 | 1.06 | 1.24 | 2.18 | 1.65 | 4.97 |
| 0.17 | 2.33 | 2.91 | 4.23 | 5.29 | 4.33 | 4.61 | −2.52 | 6.84 | 3.00 | 6.53 | 15.13 | 23.35 | 49.58 |
| 615.62 | 717.04 | 786.97 | 991.25 | 1 964.12 | 1 513.79 | 2 125.18 | 827.08 | 1 223.73 | 1 570.41 | 1 955.73 | 1 782.21 | 2 416.42 | 4 222.18 |

TABLE 15

**Total official development assistance flows and grant shares in such assistance from individual DAC member countries and multilateral agencies to the hard-core least developed countries, 1965-1974**

| | Official development assistance (million dollars) | | | | | | | Grants as percentage of official development assistance | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | *1965-1968*[a] | *1969* | *1970* | *1971* | *1972* | *1973* | *1974* | *1965-1968*[b] | | *1969* | *1970* | *1971* | *1973* | *1974* |
| A. *Bilateral donors* | | | | | | | | | | | | | | |
| Australia | 1.70 | 2.65 | 2.93 | 4.51 | 13.00 | 7.84 | 38.21 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 |
| Austria | 0.56 | 0.16 | 1.14 | 1.20 | 0.12 | 0.61 | 0.28 | 21.4 | 100.0 | 8.8 | 15.0 | 100.0 | 100.0 | 100.0 |
| Belgium | 12.35 | 18.35 | 21.62 | 23.45 | 28.70 | 34.09 | 39.43 | 94.5 | 101.0 | 100.8 | 100.8 | 100.7 | 100.0 | 92.4 |
| Canada | 5.25 | 6.39 | 10.44 | 23.36 | 65.57 | 100.24 | 124.91 | 91.2 | 93.4 | 88.0 | 50.9 | 63.2 | 61.4 | 66.8 |
| Denmark | 1.59 | 5.41 | 6.97 | 7.16 | 12.78 | 23.06 | 38.01 | 59.1 | 47.0 | 36.4 | 62.9 | 66.0 | 56.9 | 44.5 |
| Finland | .. | .. | .. | .. | .. | .. | 6.98 | .. | .. | .. | .. | .. | .. | 93.6 |
| France[c] | 67.09 | 79.30 | 63.40 | 74.50 | 103.02 | 118.99 | 175.01 | 96.9 | 93.2 | 104.3 | 96.8 | 147.2 | 89.8 | 88.6 |
| Germany, Federal Republic of | 39.13 | 34.07 | 44.84 | 53.73 | 67.71 | 138.94 | 154.97 | 48.8 | 77.9 | 76.7 | 68.4 | 84.1 | 51.1 | 57.4 |
| Italy | 19.52 | 15.13 | 24.15 | 23.96 | 6.92 | 18.19 | 13.59 | 53.0 | 53.3 | 38.4 | 66.2 | 160.0 | 73.8 | 71.7 |
| Japan | 2.92 | 6.54 | 8.15 | 8.05 | 29.20 | 41.57 | 45.00 | 97.3 | 81.8 | 91.4 | 94.4 | 65.0 | 65.6 | 46.5 |
| Netherlands | 0.95 | 0.12 | 3.64 | 7.28 | 13.16 | 14.97 | 44.01 | – | – | 75.0 | 87.8 | 91.0 | 74.3 | 64.2 |
| New Zealand | .. | .. | .. | .. | .. | 2.52 | 3.55 | .. | .. | .. | .. | .. | 100.0 | 100.0 |
| Norway | 1.04 | 1.68 | 2.60 | 6.87 | 12.56 | 11.06 | 31.28 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 |
| Portugal | – | – | – | – | – | – | – | – | – | – | – | – | – | – |
| Sweden | 7.80 | 18.22 | 15.78 | 19.10 | 55.32 | 60.07 | 71.42 | 69.2 | 54.7 | 56.4 | 54.0 | 80.3 | 69.1 | 85.6 |
| Switzerland | 1.47 | 2.37 | 2.33 | 5.72 | 10.36 | 7.39 | 8.04 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 |
| United Kingdom | 100.66 | 57.80 | 46.37 | 57.99 | 67.44 | 53.36 | 72.18 | 80.9 | 84.8 | 76.5 | 83.8 | 85.3 | 78.0 | 83.3 |
| United States of America | 162.22 | 132.00 | 138.00 | 163.00 | 225.00 | 311.00 | 286.00 | 90.5 | 81.1 | 84.1 | 74.2 | 88.9 | 79.1 | 72.7 |
| *Total* | 424.25 | 380.19 | 392.36 | 479.88 | 710.86 | 943.90 | 1 152.87 | 83.1 | 82.5 | 82.0 | 78.33 | 93.9 | 73.8 | 74.3 |
| B. *Multilateral donors* | | | | | | | | | | | | | | |
| 1. *Non-concessional* | | | | | | | | | | | | | | |
| AfDB | -5.82 | -1.12 | -1.16 | -0.13 | 3.50 | 4.48 | 2.66 | – | – | – | – | – | – | – |
| AsDB | -0.55 | -0.74 | -0.07 | 2.37 | 1.75 | 7.37 | 3.70 | – | – | – | – | – | – | – |
| EIB | – | – | – | 0.45 | -0.01 | -0.02 | – | – | – | – | – | – | – | – |
| IBRD | 5.28 | 15.62 | 23.63 | 41.28 | 41.11 | 25.79 | 3.51 | – | – | – | – | – | – | – |
| IDB | -0.17 | 0.01 | -0.1 | -0.24 | -4.30 | -2.09 | 0.53 | – | – | – | – | – | – | – |
| IFC | 2.69 | 2.60 | -0.05 | -0.50 | 0.58 | 1.20 | -1.01 | – | – | – | – | – | – | – |
| *Total* | 1.43 | 16.37 | 23.36 | 43.23 | 42.63 | 36.73 | 9.39 | – | – | – | – | – | – | – |

2. *Concessional*

| | | | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| EDF | 36.66 | 43.84 | 44.62 | 59.99 | 70.90 | 155.72 | 238.74 | 100.0 | 99.1 | 100.9 | 100.0 | 99.2 | 97.8 | 98.5 |
| IDA | 12.53 | 27.74 | 35.37 | 43.43 | 37.36 | 119.87 | 154.60 | – | – | – | – | – | – | – |
| UNDP | | 36.27 | 34.71 | 47.97 | 53.68 | 51.27 | 82.49 | | 100.0 | 100.2 | 101.8 | 101.4 | 101.3 | 101.3 |
| UNHCR | | 3.75 | 3.91 | 3.33 | 16.72 | 14.06 | 8.75 | | 87.2 | 100.3 | 100.0 | 100.1 | 100.1 | 100.3 |
| UNICEF | | 4.45 | 4.24 | 5.04 | 12.38 | 10.74 | 19.47 | | 100.2 | 103.3 | 105.0 | 101.8 | 100.5 | 102.5 |
| UNRWA | 29.73 | – | – | – | –0.01 | –0.01 | –0.01 | 100.0 | – | – | – | – | – | – |
| UNTA | | 0.33 | 6.48 | – | 1.08 | 10.70 | 11.84 | | 100.0 | 100.0 | – | 100.0 | 100.0 | 100.0 |
| WFP | | 5.31 | 15.84 | 20.58 | 27.03 | 32.70 | 48.75 | | 100.0 | 100.0 | 100.1 | 100.0 | 100.1 | 100.2 |
| Other United Nations agencies | | 0.04 | 3.71 | 3.95 | 3.52 | –0.02 | 15.95 | | 125.0 | 100.0 | 100.0 | 100.0 | – | 100.0 |
| *Total* | 78.92 | 121.73 | 148.88 | 184.29 | 222.66 | 395.03 | 580.58 | 84.1 | 76.5 | 77.1 | 77.0 | 83.4 | 69.0 | 73.0 |
| *Total multilateral* (=B.1 + B.2) | 80.35 | 138.10 | 172.24 | 227.52 | 265.29 | 431.76 | 589.97 | 82.6 | 67.4 | 66.6 | 62.4 | 70.0 | 63.1 | 71.9 |
| *Grand total* (=A + B) | 504.60 | 518.29 | 564.60 | 707.40 | 976.15 | 1 375.66 | 1 742.84 | 83.1 | 78.5 | 77.3 | 73.2 | 87.4 | 70.5 | 73.5 |
| *of which:* | | | | | | | | | | | | | | |
| *Total concessional* (=A + B.2) | 503.17 | 501.92 | 541.24 | 664.17 | 933.52 | 1338.93 | 1733.45 | 83.3 | 81.0 | 80.7 | 78.0 | 91.4 | 72.4 | 73.9 |

*Source:* UNCTAD secretariat based on information received from the OECD/DAC secretariat.

[a] Total official flows.

[b] As percentage of total official flows.

[c] Excludes approximately $40 million per year in 1970 and 1971 to the following five least developed countries: Benin, Chad, Mali, Niger and Upper Volta. The available data do not show the allocation among them.

TABLE 16

**Share of the hard-core least developed countries in official development assistance flows from individual DAC member countries and multilateral agencies, 1969-1974**

*(Percentages)*

| | *Share of hard-core least developed countries in official development assistance in flows from individual DAC member countries and multilateral agencies to all developing countries* | | | | | | *Relative importance of individual DAC member countries and multilateral agencies in official development assistance flows to the hard-core least developed countries* | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | *1969* | *1970* | *1971* | *1972* | *1973* | *1974* | *1969* | *1970* | *1971* | *1972* | *1973* | *1974* |
| A. *Bilateral donors* | | | | | | | | | | | | |
| Australia | 1.7 | 1.5 | 2.4 | 5.0 | 3.0 | 9.8 | 0.5 | 0.5 | 0.6 | 1.3 | 0.6 | 2.2 |
| Austria | 2.8 | 9.1 | 25.1 | 2.8 | 7.8 | 1.4 | .. | 0.2 | 0.2 | .. | .. | .. |
| Belgium | 22.2 | 23.9 | 21.5 | 22.2 | 19.2 | 19.3 | 3.5 | 3.8 | 3.3 | 2.9 | 2.5 | 2.3 |
| Canada | 4.0 | 3.9 | 8.1 | 19.4 | 29.1 | 25.4 | 1.2 | 1.9 | 3.3 | 6.7 | 7.3 | 7.2 |
| Denmark | 17.3 | 18.8 | 19.9 | 27.2 | 32.6 | 40.8 | 1.0 | 1.2 | 1.0 | 1.3 | 1.7 | 2.2 |
| Finland | .. | .. | .. | .. | .. | 47.7 | .. | .. | .. | .. | .. | 0.4 |
| France[a] | 9.6 | 7.5 | 7.9 | 9.4 | 9.2 | 12.6 | 15.3 | 11.2 | 10.6 | 10.6 | 8.6 | 10.0 |
| Germany, Federal Republic of | 8.9 | 10.6 | 10.6 | 12.0 | 21.2 | 17.2 | 6.6 | 7.9 | 7.6 | 6.9 | 10.1 | 8.9 |
| Italy | 27.8 | 35.3 | 21.9 | 15.1 | 23.0 | 65.7 | 2.9 | 4.3 | 3.4 | 0.7 | 1.3 | 0.8 |
| Japan | 1.9 | 2.2 | 1.9 | 6.1 | 5.6 | 5.2 | 1.3 | 1.4 | 1.1 | 3.0 | 3.0 | 2.6 |
| Netherlands | 0.1 | 2.4 | 4.8 | 6.9 | 6.8 | 14.6 | .. | 0.7 | 1.0 | 1.3 | 1.1 | 2.5 |
| New Zealand | .. | .. | .. | .. | 13.0 | 12.0 | .. | .. | .. | .. | 0.2 | 0.2 |
| Norway | 13.1 | 18.4 | 37.8 | 41.7 | 27.2 | 42.9 | 0.3 | 0.5 | 1.0 | 1.3 | 0.8 | 1.8 |
| Portugal | – | – | – | – | – | – | – | – | – | – | – | – |
| Sweden | 33.5 | 25.5 | 29.2 | 51.8 | 39.2 | 30.7 | 3.5 | 2.8 | 2.7 | 5.7 | 4.4 | 4.1 |
| Switzerland | 13.9 | 12.6 | 28.5 | 34.7 | 22.2 | 19.0 | 0.5 | 0.4 | 0.8 | 1.1 | 0.5 | 0.5 |
| United Kingdom | 17.1 | 12.6 | 12.5 | 14.7 | 12.5 | 14.5 | 11.2 | 8.2 | 8.2 | 6.9 | 3.9 | 4.1 |
| United States of America | 4.9 | 5.3 | 5.8 | 8.8 | 13.2 | 11.0 | 25.5 | 24.5 | 23.0 | 23.1 | 22.6 | 16.4 |
| *Total* | 7.1 | 7.1 | 7.7 | 11.0 | 13.6 | 14.1 | 73.3 | 69.5 | 67.8 | 72.8 | 68.6 | 66.2 |
| B. *Multilateral donors* | | | | | | | | | | | | |
| 1. *Non-concessional* | | | | | | | | | | | | |
| AfDB | – | – | – | – | – | 11.6 | –0.2 | –0.2 | .. | 0.4 | 0.3 | 0.2 |
| AsDB | – | – | 5.1 | 4.5 | 9.0 | 2.2 | –0.1 | .. | 0.3 | 0.2 | 0.5 | 0.2 |
| EIB | – | – | 6.8 | –0.1 | –0.3 | – | – | – | 0.1 | .. | .. | – |
| IBRD | 4.9 | 5.5 | 7.1 | 6.1 | 3.6 | 0.3 | 3.0 | 4.2 | 5.8 | 4.2 | 1.9 | 0.2 |
| IDB | .. | 0.3 | –0.1 | – | –8.9 | 0.1 | – | 0.1 | .. | –0.4 | –0.1 | .. |
| IFC | 5.6 | –0.1 | –1.1 | 2.5 | 1.6 | –0.7 | 0.5 | .. | –0.1 | .. | 0.1 | –0.1 |
| *Total* | 3.2 | 3.0 | 4.5 | 5.9 | 4.1 | 4.5 | 3.2 | 4.1 | 6.1 | 4.4 | 2.7 | 0.5 |

| | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| 2. *Concessional* | | | | | | | | | | | | |
| EDF | 33.3 | 24.9 | 26.5 | 31.2 | 46.5 | 42.3 | 8.5 | 7.9 | 8.5 | 7.2 | 11.3 | 13.7 |
| IDA | 11.8 | 23.4 | 15.6 | 13.5 | 19.7 | 17.4 | 5.4 | 6.3 | 6.1 | 3.8 | 8.7 | 8.9 |
| UNDP | 24.7 | 19.6 | 20.3 | 22.5 | 22.2 | | 7.0 | 6.1 | 6.8 | 5.5 | 3.7 | 4.7 |
| UNHCR | 53.0 | 52.0 | 38.9 | 76.8 | 56.2 | | 0.7 | 0.7 | 0.5 | 1.7 | 1.0 | 0.5 |
| UNICEF | 12.2 | 9.0 | 12.9 | 24.0 | 25.1 | | 0.9 | 0.8 | 0.7 | 1.3 | 0.8 | 1.1 |
| UNRWA | – | – | – | .. | .. | 27.8 | – | – | – | .. | .. | .. |
| UNTA | 0.09 | 12.8 | – | 2.3 | 22.3 | | .. | 1.1 | – | 0.1 | 0.8 | 0.7 |
| WFP | 10.1 | 16.1 | 16.8 | 22.4 | 18.9 | | 1.0 | 2.8 | 2.9 | 2.8 | 2.4 | 2.8 |
| Other United Nations agencies | 0.1 | 12.1 | 9.7 | 9.3 | –4.5 | | .. | 0.7 | 0.6 | 0.4 | .. | 0.9 |
| *Total* | 17.0 | 18.9 | 18.6 | 20.9 | 26.1 | 27.3 | 23.5 | 26.4 | 26.1 | 22.8 | 28.7 | 33.3 |
| *Total multilateral* | 11.3 | 11.0 | 11.6 | 14.9 | 17.9 | 14.0 | 26.7 | 30.5 | 32.2 | 27.2 | 31.4 | 33.8 |
| *Grand total* (= A. + B.) | 7.9 | 7.9 | 8.6 | 11.8 | 14.7 | 14.1 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 |
| *of which:* | | | | | | | | | | | | |
| *Total concessional* (=A. + B.2) | 8.3 | 8.5 | 9.2 | 12.4 | 15.8 | 16.9 | 96.8 | 95.9 | 93.9 | 95.6 | 97.3 | 99.5 |

*Source:* UNCTAD secretariat, based on information received from the OECD/DAC secretariat.

[a] See foot-note c to table 15.

TABLE 17

**Technical assistance disbursements to the hard-core least developed countries and certain land-locked developing countries (bilateral contributions from DAC member countries plus contributions from multilateral agencies), 1962-1974**

| | Total (million dollars) | | | | | | | Per capita (dollars) | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | *Average 1962-1966* | *1969* | *1970* | *1971* | *1972* | *1973* | *1974* | *Average 1962-1966* | *1969* | *1970* | *1971* | *1972* | *1973* | *1974* |
| A. *Hard-core least developed countries* | | | | | | | | | | | | | | |
| Afghanistan* | 15.7 | 19.7 | 20.9 | 24.3 | 24.2 | 22.9 | 23.9 | 1.1 | 1.2 | 1.2 | 1.4 | 1.4 | 1.3 | 1.3 |
| Bangladesh | .. | .. | .. | – | 10.4 | 11.4 | 31.4 | .. | .. | .. | – | 0.1 | 0.2 | 0.4 |
| Benin[c] | 1.7 | 7.4 | 6.1 | 9.9 | 8.3 | 10.2 | 13.0 | 0.7 | 2.8 | 2.3 | 3.6 | 2.9 | 3.5 | 4.3 |
| Bhutan* | – | 0.1 | 0.1 | 0.1 | 0.1 | 0.2 | 0.6 | – | 0.1 | 0.1 | 0.1 | 0.1 | 0.2 | 0.7 |
| Botswana* | 1.1[a] | 3.5 | 2.7 | 4.9 | 4.5 | 7.4 | 9.6 | 1.9[a] | 6.1 | 4.7 | 8.4 | 7.1 | 11.4 | 14.5 |
| Burundi* | 2.8 | 9.7 | 10.5 | 11.5 | 13.5 | 15.6 | 17.6 | 0.9 | 2.8 | 2.0 | 3.2 | 3.8 | 4.3 | 4.8 |
| Central African Republic* | 1.5 | 8.7 | 8.1 | 8.5 | 12.4 | 12.0 | 13.4 | 1.1 | 5.5 | 5.0 | 5.2 | 7.4 | 7.0 | 7.7 |
| Chad* | 1.6 | 10.8 | 9.9 | 12.3 | 15.0 | 20.0 | 20.6 | 0.5 | 3.0 | 2.7 | 3.3 | 4.0 | 5.2 | 5.2 |
| Ethiopia | 10.1 | 22.5 | 19.6 | 21.0 | 21.8 | 27.7 | 39.5 | 0.5 | 0.9 | 0.8 | 0.8 | 0.8 | 1.0 | 1.5 |
| Democratic Yemen | 1.8 | 1.4 | 2.3 | 3.5 | 4.8 | 4.8 | 7.9 | 1.5 | 1.0 | 1.6 | 2.4 | 3.2 | 3.1 | 4.8 |
| Gambia | 0.6[a] | 1.1 | 0.7 | 1.0 | 1.6 | 2.0 | 2.2 | 1.9[a] | 2.4 | 1.6 | 2.1 | 3.3 | 4.1 | 4.3 |
| Guinea | 4.4 | 4.1 | 4.1 | 4.4 | 1.1 | 1.3 | 1.7 | 1.3 | 1.1 | 1.0 | 1.1 | 0.3 | 0.3 | 0.4 |
| Haiti | 1.9 | 3.3 | 3.6 | 3.5 | 4.8 | 6.6 | 7.7 | 0.4 | 0.8 | 0.8 | 0.8 | 1.1 | 1.5 | 1.7 |
| Laos* | 18.2 | 38.8 | 39.6 | 41.7 | 35.9 | 42.0 | 30.3 | 7.1 | 13.4 | 13.4 | 13.8 | 11.5 | 13.2 | 9.3 |
| Lesotho* | 1.4[a] | 1.7 | 2.5 | 2.8 | 3.3 | 4.7 | 7.0 | 1.6[a] | 1.9 | 2.7 | 2.9 | 3.4 | 4.7 | 6.9 |
| Malawi* | 6.1[b] | 9.1 | 9.1 | 9.9 | 11.1 | 11.4 | 15.0 | 1.6[b] | 2.1 | 2.0 | 2.2 | 2.4 | 2.4 | 3.1 |
| Maldives | – | 0.2 | 0.2 | 0.2 | 0.4 | 0.4 | 0.7 | – | 1.8 | 1.8 | 1.8 | 3.6 | 3.3 | 5.8 |
| Mali* | 2.9 | 7.1 | 8.1 | 9.3 | 12.1 | 12.4 | 21.2 | 0.7 | 1.4 | 1.6 | 1.8 | 2.3 | 2.3 | 3.8 |
| Nepal* | 5.3 | 7.4 | 8.0 | 10.9 | 10.1 | 12.5 | 15.0 | 0.5 | 0.7 | 0.7 | 0.9 | 0.9 | 1.0 | 1.2 |
| Niger* | 2.0 | 11.8 | 11.1 | 11.9 | 14.6 | 13.8 | 27.1 | 0.6 | 3.0 | 2.8 | 2.9 | 3.5 | 3.2 | 6.0 |
| Rwanda* | 2.6 | 9.7 | 11.7 | 13.7 | 16.4 | 19.2 | 23.8 | 0.9 | 2.7 | 3.2 | 3.6 | 4.2 | 4.8 | 5.8 |
| Sikkim* | .. | .. | .. | .. | .. | .. | .. | .. | .. | .. | .. | .. | .. | .. |
| Somalia | 9.0 | 11.8 | 10.6 | 10.3 | 9.8 | 11.7 | 13.9 | 3.7 | 4.3 | 3.8 | 3.6 | 3.3 | 3.9 | 4.5 |
| Sudan | 7.0 | 7.5 | 6.5 | 6.2 | 21.9 | 18.9 | 17.0 | 0.5 | 0.5 | 0.4 | 0.4 | 1.3 | 1.1 | 1.0 |
| United Republic of Tanzania | 14.4 | 19.8 | 21.4 | 24.0 | 32.7 | 38.0 | 48.3 | 1.3 | 1.5 | 1.6 | 1.8 | 2.3 | 2.6 | 3.3 |
| Uganda* | 9.3 | 15.1 | 14.3 | 17.7 | 16.0 | 11.8 | 8.4 | 1.1 | 1.6 | 1.5 | 1.7 | 1.5 | 1.1 | 0.8 |
| Upper Volta* | 2.6 | 9.5 | 8.2 | 9.6 | 12.9 | 15.3 | 20.5 | 0.5 | 1.8 | 1.5 | 1.7 | 2.3 | 2.7 | 3.5 |
| Western Samoa | 0.3[a] | 0.5 | 0.9 | 1.0 | 1.4 | 1.6 | 3.9 | 2.3[a] | 3.6 | 6.4 | 6.7 | 9.3 | 10.7 | 24.4 |
| Yemen | 2.0[a] | 1.2 | 2.6 | 3.2 | 4.8 | 6.2 | 11.2 | 0.4[a] | 0.2 | 0.5 | 0.5 | 0.8 | 1.0 | 1.7 |
| *Total* | 126.3 | 243.5 | 243.4 | 277.3 | 325.9 | 362.0 | 452.4 | 1.0 | 1.7 | 1.6 | 1.2 | 1.4 | 1.5 | 1.9 |
| B. *Other land-locked developing countries* | | | | | | | | | | | | | | |
| Bolivia | 7.2 | 8.2 | 8.4 | 11.1 | 10.6 | 13.0 | 11.6 | 1.7 | 1.7 | 1.7 | 2.2 | 2.0 | 2.4 | 2.1 |
| Paraguay | 2.9 | 4.7 | 6.0 | 6.5 | 6.5 | 7.7 | 7.2 | 1.5 | 2.0 | 2.5 | 2.6 | 2.5 | 2.9 | 2.8 |
| Swaziland | 1.1[a] | 1.6 | 2.0 | 2.4 | 3.8 | 4.6 | 8.8 | 3.1 | 3.9 | 4.8 | 5.5 | 8.4 | 10.0 | 18.3 |
| Zambia | 3.5 | 15.0 | 13.3 | 19.1 | 21.8 | 24.9 | 28.8 | 1.0 | 3.7 | 3.2 | 4.4 | 4.9 | 5.4 | 6.1 |
| C. *Total: all developing countries* | 1 080.7 | 1 836.2 | 1 879.1 | 2 051.2 | 2 276.7 | 2 689.0 | 3 091.0 | 0.7 | 1.1 | 1.1 | 1.2 | 1.3 | 1.5 | 1.6 |

*Source:* UNCTAD secretariat, based on information received from the OECD/DAC secretariat.

* Land-locked developing countries.

[a] 1965-1966 average.

[b] 1964-1966 average.

[c] Formerly Dahomey.

TABLE 18

**Share of technical assistance in total bilateral official development assistance flows from individual DAC member countries to the hard-core least developed countries, 1969-1974**

*(Percentages)*

| | *1969* | *1970* | *1971* | *1972* | *1973* | *1974* |
|---|---|---|---|---|---|---|
| Australia | 35.5 | 54.9 | 46.6 | 11.9 | 25.9 | 7.2 |
| Austria | 100.0 | 8.8 | 15.0 | 100.0 | 100.0 | 100.0 |
| Belgium | 64.9 | 61.8 | 59.8 | 63.0 | 64.2 | 62.4 |
| Canada | 64.6 | 56.7 | 29.1 | 13.0 | 8.2 | 7.2 |
| Denmark | 38.5 | 28.0 | 55.3 | 39.7 | 27.7 | 16.7 |
| Finland | .. | .. | .. | .. | .. | 92.3 |
| France | 53.3 | 59.6 | 54.8 | 53.9 | 50.5 | 42.6 |
| Germany, Federal Republic of | 71.5 | 69.0 | 57.4 | 53.2 | 29.9 | 40.6 |
| Italy | 31.2 | 24.0 | 27.2 | 88.6 | 56.1 | 69.2 |
| Japan | 32.6 | 33.7 | 38.9 | 12.3 | 15.4 | 24.2 |
| Netherlands | – | 63.2 | 52.3 | 52.1 | 56.4 | 27.6 |
| New Zealand | .. | .. | .. | .. | 29.8 | 45.1 |
| Norway | 58.9 | 43.5 | 26.2 | 22.3 | 18.2 | 13.7 |
| Portugal | – | – | – | – | – | – |
| Sweden | 48.8 | 38.0 | 46.3 | 19.5 | 21.7 | 8.7 |
| Switzerland | 19.0 | 26.6 | 11.7 | 10.3 | 17.6 | 14.6 |
| United Kingdom | 35.1 | 45.2 | 37.8 | 41.3 | 54.0 | 43.8 |
| United States of America | 53.8 | 40.6 | 41.7 | 22.2 | 19.0 | 15.4 |
| *Total* | 51.1 | 47.7 | 44.5 | 32.9 | 28.7 | 26.7 |

*Source:* UNCTAD secretariat, based on information received from the OECD/DAC secretariat.

TABLE 19

**Multilateral technical assistance as percentage of total technical assistance to individual hard-core least developed countries and certain land-locked developing countries, 1969-1974**

*(Percentages)*

| | *1969* | *1970* | *1971* | *1972* | *1973* | *1974* |
|---|---|---|---|---|---|---|
| A. *Hard-core least developed countries* | | | | | | |
| Afghanistan* | 24.2 | 25.7 | 24.2 | 28.2 | 31.7 | 41.3 |
| Bangladesh | .. | .. | .. | 61.6 | 33.8 | 49.0 |
| Benin[a] | 21.9 | 26.6 | 19.3 | 21.1 | 18.5 | 25.4 |
| Bhutan* | – | – | – | – | 5.0 | 61.4 |
| Botswana* | 22.6 | 31.1 | 22.2 | 25.3 | 19.2 | 20.7 |
| Burundi* | 23.7 | 26.1 | 27.3 | 19.1 | 21.0 | 22.9 |
| Central African Republic* | 20.6 | 21.2 | 26.4 | 20.9 | 19.4 | 22.7 |
| Chad* | 10.7 | 9.4 | 9.3 | 9.9 | 10.8 | 20.3 |
| Democratic Yemen | 39.3 | 43.0 | 58.9 | 64.0 | 64.4 | 55.4 |
| Ethiopia | 16.4 | 22.3 | 28.0 | 27.9 | 24.0 | 43.8 |
| Gambia | 23.6 | 32.9 | 26.0 | 32.5 | 31.0 | 38.1 |
| Guinea | 44.9 | 69.5 | 63.2 | 98.2 | 90.8 | 94.7 |
| Haiti | 29.1 | 37.5 | 37.1 | 41.7 | 39.7 | 47.9 |
| Laos* | 1.9 | 2.1 | 2.2 | 3.4 | 3.1 | 8.3 |
| Lesotho* | 31.8 | 60.4 | 61.1 | 50.6 | 40.6 | 43.1 |
| Malawi* | 11.2 | 14.7 | 11.0 | 15.4 | 20.7 | 23.1 |
| Maldives | 60.0 | 65.0 | 60.0 | 47.5 | 57.5 | 81.3 |
| Mali* | 30.1 | 31.5 | 38.8 | 35.1 | 29.2 | 35.4 |
| Nepal* | 26.9 | 35.6 | 31.0 | 39.1 | 33.8 | 39.4 |
| Niger* | 18.6 | 20.9 | 23.5 | 22.8 | 22.2 | 27.7 |
| Rwanda* | 20.3 | 22.1 | 18.5 | 18.5 | 19.8 | 17.7 |
| Sikkim* | .. | .. | .. | .. | .. | .. |
| Somalia | 36.9 | 32.5 | 31.2 | 36.6 | 37.2 | 41.2 |
| Sudan | 56.5 | 69.8 | 76.5 | 83.5 | 72.8 | 58.9 |
| Uganda* | 23.2 | 22.8 | 18.6 | 17.8 | 22.3 | 40.5 |
| United Republic of Tanzania | 20.4 | 17.2 | 17.0 | 22.3 | 16.5 | 18.0 |
| Upper Volta* | 13.1 | 24.4 | 19.6 | 19.8 | 17.3 | 22.0 |
| Western Samoa | 66.0 | 70.0 | 75.0 | 79.3 | 56.3 | 32.0 |
| Yemen | 65.8 | 58.5 | 65.9 | 77.5 | 62.1 | 52.8 |
| *Total* | 20.1 | 23.1 | 23.1 | 28.2 | 25.2 | 31.9 |
| B. *Other land-locked developing countries* | | | | | | |
| Bolivia | 23.2 | 22.0 | 30.1 | 33.6 | 29.5 | 33.9 |
| Paraguay | 29.1 | 29.2 | 22.5 | 27.4 | 20.9 | 31.1 |
| Swaziland | 36.9 | 32.0 | 29.2 | 27.9 | 24.3 | 54.8 |
| Zambia | 15.7 | 23.5 | 20.9 | 21.9 | 16.5 | 15.3 |
| C. *Total: all developing countries* | 18.1 | 20.7 | 19.4 | 20.9 | 16.4 | 20.4 |

*Source:* UNCTAD secretariat, based on information received from the OECD/DAC secretariat.

* Land-locked developing countries.

[a] Formerly Dahomey.

TABLE 20

**Total receipts of individual hard-core least developed countries from members of OPEC and multilateral agencies largely financed by them[a]: gross disbursements**

*(Million dollars)*

| Recipients | *Concessional[b]* | | | *Non-concessional* | | | *Total disbursements* | | | *Memo item[c] IMF oil facility* | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | *1973* | *1974* | *January-June 1975* | *1973* | *1974* | *January-June 1975* | *1973* | *1974* | *January-June 1975* | *1973* | *1974* | *January-June 1975* |
| Afghanistan | | 8.30 | | | | | | 8.30 | | | | |
| Bangladesh | | 60.04 | 48.76 | | | | | 60.04 | 48.76 | | 42.18 | 11.59 |
| Benin[d] | | 1.30 | | | | | | 1.30 | | | | |
| Botswana | | 2.70 | 2.70 | | | | | 2.70 | 2.70 | | | |
| Burundi | 1.00 | 3.00 | 1.00 | | | | 1.00 | 3.00 | 1.00 | | | 1.25 |
| Central African Republic | | 2.40 | 0.66 | | | | | 2.40 | 0.66 | | 2.82 | 0.63 |
| Chad | 5.42 | 13.02 | 4.90 | 14.13 | 6.21 | | 19.55 | 19.23 | 4.90 | | 2.30 | |
| Democratic Yemen | | 18.86 | 22.13 | | | | | 18.86 | 22.13 | | 9.71 | 7.41 |
| Ethiopia | | 15.30 | | | | | | 15.30 | | | | |
| Gambia | | 1.79 | | | | | | 1.79 | | | | |
| Guinea | | 14.80 | | | 15.00 | | | 29.80 | | | 3.65 | |
| Haiti | | | 0.76 | | | | | | 0.76 | | 3.97 | 2.71 |
| Laos | | | 0.33 | | | | | | 0.33 | | | |
| Lesotho | | 1.40 | 1.40 | | | | | 1.40 | 1.40 | | | |
| Malawi | | 7.50 | | | | | | 7.50 | | | | |
| Mali | 0.66 | 12.12 | 4.90 | | | | 0.66 | 12.12 | 4.90 | | 4.18 | 1.04 |
| Niger | 2.83 | 6.32 | | | | | 2.83 | 6.32 | | | | |
| Rwanda | | 1.00 | 4.66 | | | | | 1.00 | 4.66 | | | |
| Somalia | 5.46 | 43.79 | 32.12 | | 20.46 | | 5.46 | 64.25 | 32.12 | | | |
| Sudan | 3.60 | 131.17 | 30.01 | 0.72 | 7.47 | | 4.32 | 138.64 | 30.01 | | 29.96 | |
| Uganda | | 24.40 | 3.32 | 4.57 | | | 4.57 | 24.40 | 3.32 | | 5.22 | 14.82 |
| United Republic of Tanzaniz | | 16.73 | 3.32 | | | | | 16.73 | 3.32 | | 29.65 | 3.24 |
| Upper Volta | 0.73 | 8.59 | | | | | 0.73 | 8.59 | | | | |
| Yemen | 8.71 | 79.67 | 19.68 | | | | 8.71 | 79.67 | 19.68 | | | |
| *Total* | 28.41 | 474.20 | 180.65 | 19.42 | 49.14 | – | 47.83 | 523.34 | 180.65 | | 129.99 | 42.69 |
| *Total: all developing countries* | 1 068.06 | 3 208.78 | 1 509.25 | 108.73 | 228.70 | 835.28 | 1 176.79 | 3 437.48 | 2 344.53 | | 791.47 | 452.17 |

*Source:* UNCTAD secretariat.

[a] The members of OPEC and the multilateral institutions included here are the following: Algeria, Iran, Iraq, Kuwait, Libyan Arab Republic, Nigeria, Qatar, Saudi Arabia, United Arab Emirates, Venezuela, the Arab Fund for the Provision of Loans to African Countries, the Arab Fund for Economic and Social Development, rhe Special Account to Ease the Financial Burdens of Arab Petroleum-Importing Countries and the United Nations Special Account.

[b] The term "concessional" applies to loans containing a grant element of 25 per cent based on a discount rate of 10 per cent.

[c] Pro-rated according to the contribution by members of OPEC to the IMF oil facility.

[d] Formerly Dahomey.

TABLE 21

**Loans from socialist countries of Eastern Europe and from China to certain hard-core least developed countries, 1970-1974 (net disbursements)**

*(Million dollars)*

| Recipients | *Socialist countries of Eastern Europe* | | | | | *China* | | | | | *Total* | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | *1970* | *1971* | *1972* | *1973* | *1974* | *1970* | *1971* | *1972* | *1973* | *1974* | *1970* | *1971* | *1972* | *1973* | *1974* |
| Afghanistan . . . . . . . . . . . . . | 26.8 | 32.2 | 28.0 | 32.8 | – | 2.7 | 5.3 | 1.0 | 2.1 | 2.3 | 29.5 | 37.5 | 29.0 | 35.0 | 2.3* |
| Bangladesh. . . . . . . . . . . . . . | . . | . . | . . | 56.0 | 22.6 | . . | . . | . . | – | – | . . | . . | . . | 56.0 | 22.6 |
| Central African Republic. . . . . . | – | – | 1.6 | 0.0 | 0.3* | – | – | – | – | – | – | – | 1.6 | – | 0.3* |
| Ethiopia . . . . . . . . . . . . . . . | 2.4 | 2.2 | 2.1 | 1.1 | 0.4 | – | – | – | – | – | 2.4 | 2.2 | 2.1 | 1.1 | 0.4 |
| Mali. . . . . . . . . . . . . . . . . . | 1.9 | – | 1.8 | 1.4 | 4.6 | 14.1 | 2.1 | 2.7 | 1.7 | 13.6* | 16.0 | 2.1 | 4.5 | 3.1 | 18.2* |
| Rwanda . . . . . . . . . . . . . . . | – | – | – | – | – | – | – | – | – | 6.7* | – | – | – | – | 6.7* |
| Somalia. . . . . . . . . . . . . . . . | 0.9 | 3.0 | 3.2 | 3.9 | 3.2* | 0.1 | 0.1 | 0.1 | 10.7 | 26.2* | 1.0 | 3.1 | 3.2 | 14.6 | 29.4* |
| Sudan. . . . . . . . . . . . . . . . . | 4.8 | 4.4 | 2.9 | 4.9 | 5.7* | – | – | 0.4 | – | – | 4.8 | 4.4 | 3.3 | 4.9 | 5.7* |
| Uganda. . . . . . . . . . . . . . . . | 0.6 | 2.2 | 5.8 | 0.6 | 7.4 | – | – | – | – | – | 0.6 | 2.2 | 5.8 | 0.6 | 7.4 |
| United Republic of Tanzania . . . | 1.2 | 0.3 | 3.3 | 0.5 | 0.5 | 9.7 | 6.0 | 58.4 | 47.4 | 52.7 | 10.9 | 6.3 | 61.7 | 47.9 | 53.1 |
| *Total* . . . . . . . . . . . . . | 38.6 | 44.3 | 48.7 | 101.2 | 44.7 | 26.6 | 13.5 | 62.6 | 61.9 | 101.5 | 65.2 | 57.8 | 111.2 | 163.2 | 146.1 |

*Source:* UNCTAD secretariat, based on information supplied by IBRD.

* Estimates.

TABLE 22

**External public debt outstanding, debt service payments and grant element in loans and grants for certain hard-core least developed countries, 1969-1974**

| | *Debt outstanding* | | | | | | *Debt service payments* | | | | | | *Grant element in loans and grants*[a] | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | *Million dollars* | | | *Ratio to exports* | | | *Million dollars* | | | *Percentage of exports* | | | | |
| | *1969* | *1973* | *1974* | *1969* | *1973* | *1974* | *1969* | *1973* | *1974* | *1969* | *1973* | *1974* | *1967-1970* | *1971-1973* |
| Afghanistan | 669.5 | 941.5 | .. | 8.2 | 8.6 | .. | 21.0 | 31.8 | .. | 25.6 | 28.9 | .. | 82 | 87 |
| Bangladesh | .. | 655.0 | 1 113.6 | .. | 1.8 | 3.2 | .. | 17.2 | 64.3 | .. | 4.8 | 18.5 | .. | 81 |
| Benin[d] | 41.4 | 127.1 | .. | 1.5 | 2.2 | .. | 1.5 | 5.7 | .. | 5.4 | 9.7 | .. | 92 | 83 |
| Botswana | 10.1 | 124.9 | .. | 0.6 | 1.8 | .. | 0.6 | 2.4 | .. | 3.4 | 3.4 | .. | 93 | 68 |
| Burundi | 6.8 | 8.1 | 8.8 | 0.6 | 0.3 | 0.3 | 0.6 | 1.0 | 0.9 | 4.8 | 3.3 | 3.0 | 96 | 99 |
| Central African Republic | 20.1 | 61.6 | .. | 0.6 | 1.7 | .. | 2.2 | 3.2 | .. | 6.1 | 8.6 | .. | 90 | 72 |
| Chad | 45.8 | 37.5 | .. | 1.4 | 1.0 | .. | 3.4 | 1.0 | .. | 10.6 | 2.6 | .. | 88 | 92 |
| Ethiopia | 252.5 | 403.9 | 479.8 | 2.1 | 1.7 | 1.8 | 19.5 | 22.0 | 21.2 | 16.4 | 9.3 | 7.9 | 68 | 80 |
| Guinea | 361.9 | .. | .. | 6.3 | .. | .. | 6.5 | .. | .. | 11.4 | .. | .. | .. | .. |
| Haiti | 44.2 | 48.8 | 71.2 | 1.2 | 0.9 | 1.0 | 1.2 | 4.9 | 6.6 | 3.2 | 9.4 | 9.2 | .. | .. |
| Lesotho | 7.4 | 8.3 | 12.8 | 1.1 | 0.6 | 0.8 | 0.3 | 0.4 | 0.3 | 4.3 | 2.9 | 1.9 | 97 | 98 |
| Malawi | 116.6 | 230.8 | 265.1 | 2.2 | 2.4 | 2.2 | 4.0 | 11.0 | 14.2 | 7.5 | 11.5 | 11.9 | 79 | 77 |
| Mali | 264.8 | 325.8 | .. | 15.6 | 9.3 | .. | 4.6 | 1.4 | .. | 27.0 | 4.0 | .. | 87 | 94 |
| Nepal | 7.2 | 35.2[b] | .. | 0.2 | 1.2[b] | .. | 1.4 | 0.3[b] | .. | 3.1 | 1.0[b] | .. | .. | .. |
| Niger | 53.9 | 102.0 | .. | 2.2 | 1.6 | .. | 2.3 | 3.3 | .. | 9.6 | 5.3 | .. | 79 | 93 |
| Rwanda | 2.4 | 37.2 | .. | 0.2 | 1.2 | .. | 0.5 | 0.4 | .. | 3.6 | 1.3 | .. | 97 | 96 |
| Somalia | 102.5 | 239.4 | .. | 3.2 | 5.7 | .. | 0.7 | 2.6 | .. | 2.2 | 6.2 | .. | 87 | 86 |
| Sudan | 311.4 | 382.7 | .. | 1.3 | 0.9 | .. | 23.3 | 54.4 | .. | 9.4 | 12.5 | .. | 46 | 60 |
| Uganda | 166.8 | 213.8 | 235.2 | 0.7 | 0.7 | 0.7 | 18.5 | 12.4 | 11.5 | 8.0 | 3.8 | 3.5 | 81 | 75 |
| United Republic of Tanzania | 229.2 | 664.6 | 788.1 | 0.9 | 1.8 | 1.8 | 16.0 | 19.6 | 20.7 | 6.4 | 5.3 | 4.8 | 77 | 83 |
| Upper Volta | 21.2 | 41.7 | 119.6 | 1;0 | 1.8 | 3.9 | 1.8 | 3.0 | 3.7 | 8.6 | 13.0 | 11.9 | 89 | 89 |
| Yemen | .. | 306.1 | 348.2 | .. | 38.2 | 24.9 | .. | 4.2 | 2.2 | .. | 52.0 | 18.1 | .. | .. |
| *(For comparison)* Total for all developing countries | 57 050 | 107 718 | .. | 1.2 | 1.1 | .. | 4 641 | 9 786 | .. | 9.7 | 9.9 | .. | 49[c] | 42[c] |

*Source:* Secretariat estimates, based on information supplied by IBRD.

[a] Using a 10 per cent discount rate.

[b] 1972.

[c] Including southern European countries.

[d] Formerly Dahomey.

TABLE 23

**Classification of developing island countries and territories by population category, income level, land area and distance from the nearest continent**

| *Population category 1973* | *Income level: per capita GNP in 1973 (dollars)* | *Distance from nearest continent* | | |
|---|---|---|---|---|
| | | *Less than 200 kilometres* | *200 – 1,000 kilometres* | *More than 1,000 kilometres* |
| Large and medium (over 1 million inhabitants | Under 250 | Indonesia L<br>Sri Lanka L | Madagascar L<br>Haiti M<br>Philippines L | |
| | 250 to 399 | | Papua New Guinea L | |
| | 400 to 1000 | | Cuba L<br>Jamaica M<br>Dominican Republic L | |
| | Over 1000 | Hong Kong S<br>Singapore VS<br>Trinidad and Tobago M | Puerto Rico M | |
| Small (150,000 to 1 million inhabitants) | Under 250 | | East Timor M<br>Comoros S | |
| | 250 to 399 | Macao VS | Cape Verde M | Mauritius S<br>British Solomon Islands M<br>Western Samoa S |
| | 400 to 1000 | | Barbados VS<br>Bahrain VS | Fiji M |
| | Over 1000 | | Cyprus M<br>Martinique S<br>Guadeloupe S<br>Malta VS<br>Netherlands Antilles S<br>Bahamas M | Réunion S |
| Very small (under 150,000 inhabitants) | Under 250 | | Maldives VS<br>St. Vincent VS | Tonga VS |
| | 250 to 399 | | St. Lucia VS<br>Grenada VS<br>Dominica VS<br>St. Kitts-Nevis-Anguilla VS<br>Antigua VS<br>Seychelles VS | Gilbert Islands VS<br>Tuvalu |
| | 400 to1000 | | Sáo Tomé and Príncipe S | New Hebrides M<br>Pacific Islands S |
| | Over 1000 | | US Virgin Islands VS<br><br><br><br>sq. km.), | American Samoa VS<br>Brunei M<br>French Polynesia M<br>New Caledonia VS<br>Guam VS<br>Bermuda VS |

*Sources: UNCTAD Handbook of International Trade and Development Statistics, 1976* (United Nations publication, Sales No. E.F.76.II.D.3), and *Developing Island Countries* (United Nations publication, Sales No. E.74.II.D.6).

NOTE. Land area indications:
VS = very small (under 1,000 sq km),
S = small (1,000 – 3,999 sq km),
M = medium (4,000 – 39,999 sq km),
L = large (40,000 sq km and over).

TABLE 24

**Some basic indicators for developing island countries and territories**

| Country or territory | Total population[a] 1973 (thousands) | Gross national product 1973: Total (million dollars) | Gross national product 1973: Per capita (dollars) | Gross national product 1973: Annual average growth rate (per cent) 1960-1970 | Gross national product 1973: Annual average growth rate (per cent) 1970-1974 | Net transfer of resources from laoans and grants: Total (million dollars) Average 1970-1974[b] | Net transfer of resources from laoans and grants: Total (million dollars) 1974 | Net transfer of resources from laoans and grants: Per capita (dollars) 1974 |
|---|---|---|---|---|---|---|---|---|
| *Population of 1 million and over* | | | | | | | | |
| Indonesia | 124 602 | 15 370 | 115 | 3.4 | 7.3 | 494 | 776 | 6.1 |
| Philippines | 40 219 | 10 330 | 246 | 5.2 | 6.3 | 209 | 215 | 5.2 |
| Sri Lanka | 13 249 | 2 612 | 198 | 5.0 | 5.4 | 52 | 73 | 5.3 |
| Cuba | 8 916 | 4 850[c] | 540[c] | 1.5[d] | .. | | | |
| Madagascar | 7 232 | 1 258 | 174 | 3.4 | 1.3 | 50 | 57 | 7.8 |
| Haiti | 4 440 | 694 | 143 | 1.0 | 4.3 | 7 | 12 | 2.6 |
| Dominican Republic | 4 432 | 2 378 | 509 | 4.6 | 11.0 | 54 | 20 | 4.4 |
| Hong Kong | 4 160 | 5 998 | 1 435 | 12.9 | 6.5 | 240 | −13 | −2.9 |
| Puerto Rico | 2 951 | 6 774 | 2 266 | 7.2 | 6.7[e] | | | |
| Papua New Guinea | 2 563 | 945 | 365 | 6.5 | 7.8[e] | 199 | 251 | 94.9 |
| Singapore | 2 185 | 4 283 | 1 929 | 9.4 | 11.2 | 68 | 44 | 19.9 |
| Jamaica | 1 976 | 1 714 | 868 | 5.5 | 6.2 | 34 | 48 | 24.2 |
| Trindad and Tobago | 1 064 | 1 135 | 1 195 | 4.5 | 4.1 | 5 | 7 | 7.2 |
| *Population of under 1 million* | | | | | | | | |
| Ryukyu Islands | 945 | 980[d] | 1 050[f] | 11.4 | .. | | | |
| Mauritius | 868 | 347 | 399 | 1.9 | 7.9 | 11 | 29 | 33.9 |
| Cyprus | 659 | 963 | 1 459 | 6.5 | 1.3 | 19 | 17 | 26.7 |
| East Timor | 639 | 90[c] | 130[e] | 2.8[d] | .. | | | |
| Fiji | 559 | 367 | 640 | 5.4[d] | .. | 8 | 25 | 42.8 |
| Reunion | 474 | 570[e] | 1 210[c] | 11.1 | 4.8[e] | 101 | 248 | 505.4 |
| Martinique | 343 | 460[c] | 1 330[c] | 11.9[d] | .. | 74 | 129 | 358.7 |
| Guadeloupe | 342 | 360[c] | 1 050[c] | 10.4 | .. | 58 | 30 | 85.7 |
| Malta | 322 | 353 | 1 096 | 5.5 | 7.3 | 14 | 14 | 44.5 |
| Comoros | 291 | 40[c] | 170[c] | 5.9[d] | .. | | | |
| Cape Verde | 284 | 98[g] | 336[g] | 3.4[d] | .. | | | |
| Macao | 262 | 70[c] | 270[c] | 1.6[d] | | 2 | | |
| Barbados | 243 | 227 | 946 | 3.8 | −1.7 | 4 | 4 | 16.3 |
| Netherlands Antilles | 234 | 360[c] | 1 530[c] | 0.1[h] | .. | 34 | 28 | 117.1 |
| Bahrain | 227 | 216 | 935 | 6.4[d] | .. | | | |
| Bahamas | 193 | 440[c] | 2 320[c] | 7.6[d] | .. | 31 | −25 | −122.8 |
| British Solomon Islands | 179 | 50[c] | 280[c] | 1.9[d] | .. | .. | .. | .. |
| Western Samoa | 152 | 40[c] | 250[c] | 1.5[d] | .. | 2 | 2 | 11.8 |
| Brunei | 145 | 240[c] | 1 640[c] | 3.2[d] | .. | 9 | −5 | −33.9 |
| St. Lucia | 120 | 40[f] | 340[f] | 11.0[d] | .. | .. | .. | .. |
| French Polynesia | 120 | 350[c] | 2 680[c] | 11.7[d] | .. | 20 | 43 | 362.4 |
| New Caledonia | 119 | 630[c] | 5 010[c] | 6.6[d] | .. | 30 | 69 | 533.5 |
| Maldives | 115 | 10[c] | 90[c] | 2.8[d] | .. | .. | .. | .. |
| Pacific Islands | 110 | 50[c] | 450[c] | 6.3[d] | .. | .. | .. | .. |
| Grenada | 105 | 30[f] | 300[f] | 7.2[d] | .. | .. | .. | .. |
| St. Vincent | 98 | 20[f] | 240[f] | 5.4[d] | .. | .. | .. | .. |
| Guam | 93 | 410[c] | 4 130[c] | 9.0[d] | .. | .. | .. | .. |
| Tonga | 92 | 20[c] | 210[c] | 0.3[d] | .. | .. | .. | .. |
| New Hebrides | 90 | 40[c] | 480[c] | 7.4[d] | .. | 4 | 16 | 179.7 |
| São Tomé and Príncipe | 78 | 40[c] | 470[c] | 2.4[d] | .. | 1 | .. | .. |
| Dominica | 76 | 20[f] | 280[f] | 6.0[d] | .. | .. | .. | .. |
| United States Virgin Islands | 65 | 420[c] | 5 910[c] | 15.8[d] | .. | .. | .. | .. |
| St. Kitts-Nevis-Anguilla | 64 | 20[f] | 320[f] | 5.1[d] | .. | .. | .. | .. |
| Gilbert Islands and Tuvalu | 63 | 20[c] | 360[c] | 0.5[d] | .. | .. | .. | .. |
| Antigua | 62 | 20[f] | 370[f] | 6.8[d] | .. | .. | .. | .. |
| Seychelles | 56 | 20[c] | 370[c] | 1.8[d] | .. | .. | .. | .. |
| Bermuda | 55 | 260[c] | 4 710[c] | 9.5[d] | .. | 1 | 8 | 134.3 |
| American Samoa | 32 | 30[c] | 1 020[c] | 11.4[d] | .. | .. | .. | .. |

*Source:* UNCTAD, *Handbook of International Trade and Development Statistics, 1976 (op. cit).*

[a] The population data used in the calculation of the estimates of GNP *per capita* are extracted from other sources and in some cases differ somewhat from the data shown for population in this table.

[b] The data are shown in current prices. To obtain constant 1974 prices, the figures for 1970-1971 should be multiplied by 1.91, which represents the increase in the import unit value for all developing countries.

[c] Tentative estimate at average 1972-1974 prices.

[d] Tentative estimate.

[e] 1970-1973.

[f] Estimate for 1970.

[g] Gross domestic product.

[h] 1960-1968.

TABLE 25

**Tentative terms of trade estimates and related indicators[a] for selected developing island countries and territories, 1975**

| *Country or territory* | *Export volume* | *Import volume* | *Terms of trade* | *Purchasing power of exports* |
|---|---|---|---|---|
| *Population of 1 million and over* | | | | |
| Indonesia | 137 | 260 | 199 | 272 |
| Philippines | 95 | 115 | 91 | 86 |
| Sri Lanka | 101 | 88 | 65 | 65 |
| Cuba | 52 | 51 | 176 | 91 |
| Madagascar | 87 | 91 | 96 | 84 |
| Dominican Republic | 131 | 142 | 163 | 214 |
| Jamaica | 101 | 97 | 93 | 94 |
| Trinidad and Tobago | 80 | 86 | 136 | 109 |
| *Population of under 1 million* | | | | |
| Mauritius | 133 | 240 | 252 | 335 |
| Cyprus | 89 | 66 | 81 | 72 |
| Reunion | 51 | 142 | 175 | 90 |
| Martinique | 170 | 118 | 94 | 160 |
| Guadeloupe | 103 | 115 | 110 | 113 |
| Barbados | 90 | 83 | 149 | 134 |
| Netherlands Antilles | 75 | 97 | 147 | 110 |
| Brunei | 94 | 108 | 401 | 378 |

*Source:* UNCTAD, *Handbook of International Trade and Development Statistics, 1976 (op. cit.).*

[a] Index numbers based on the year 1970 (= 100).

# DOCUMENT TD/192

## Economic co-operation among developing countries

### *Report by the UNCTAD secretariat*

*[Original: English]*
*[22 December 1975]*

CONTENTS



CHAPTER I

## *Towards a global system of economic co-operation among developing countries*

1. During the last few years, a number of factors and circumstances have given a new impetus to the concept of economic co-operation among developing countries. Foremost among them was the realization that the International Development Strategy for the Second United Nations Development Decade[1] was falling far behind the expectations placed on it in 1970. Deep and prolonged recession and severe inflationary pressures in developed market-economy countries, the increase in oil prices, fluctuations in other commodity prices and the consequent financial and balance-of-payments problems, brought about dramatic changes in the world economy. All this gave rise to a greater awareness of the potentialities of collective self-reliance. The developing countries had before them the challenge of acquiring increased strength through unity of action.

[1] General Assembly resolution 2626 (XXV) of 24 October 1970.

2. The failure of the traditional economic order to solve the problems of poverty and economic backwardness has imparted a sense of urgency to the need for the developing countries to reduce their dependence on the industrialized centres and to secure their balanced development through co-operation among themselves. This sense of urgency has also been fostered by the growing realization that in the absence of conscious and deliberate efforts to that end, the opportunities and prospects for co-operative action which exist at present might not necessarily be a permanent feature in the relationships among developing countries. While solidarity among them has been emphasized on several occasions, there is nevertheless a danger that, without effective mechanisms to harmonize a diversity of interests, such solidarity could be negatively affected by the differing circumstances and degrees of development in which the countries of the third world find themselves.

3. In International Development Strategy, co-operation among developing countries was viewed mainly as the continuation by those countries of "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".[2] Since that time, however, several resolutions and decisions adopted within and outside the United Nations have widened the context of co-operation beyond the boundaries set by trade and integration agreements among neighbouring countries. In particular, the Fourth Conference of Heads of State or Government of Non-Aligned Countries, held at Algiers in September 1973, approved an Action Programme for Economic Co-operation among Non-Aligned and other Developing Countries which had been adopted at the Conference of Foreign Ministers of Non-Aligned Countries held at Georgetown, Guyana, in August 1972. Then, in 1974, the Declaration on the Establishment of a New International Economic Order[3] underlined the importance of promoting new types of co-operation among the developing countries. Although it has been recognized that the strengthening of the existing economic integration schemes, in which in fact about one-half of the total number of developing countries participate, should constitute an essential element of a comprehensive effort towards collective self-reliance, new approaches and ideas are emerging which emphasize the need for co-operation among all the developing countries. This is particularly so in relation to actions such as those leading to the creation of producers' associations, which would strengthen the measures being adopted for the creation of a new and equitable international economic order.

4. The Programme of Action on the Establishment of a New International Economic Order adopted at the sixth special session of the General Assembly envisages, *inter alia,* measures to be taken by developing countries "to promote collective self-reliance among them and to strengthen mutually beneficial international economic co-operation with a view to bringing about the accelerated development of developing countries".[4] In addition, the resolution on development and international economic co-operation adopted by the Assembly at its seventh special session urged "developed countries and the United Nations system... to provide, as and when requested, support and assistance to developing countries in strengthening and enlarging their mutual co-operation at subregional, regional and interregional levels".[5] The development of collective self-reliance is thus an integral aspect of a new international economic order and one supported by all sectors of the international community. Within the new global strategy for economic development and the principles governing international economic co-operation, it has been given a new and more profound emphasis.

5. The resolutions and recommendations referred to above have given special importance to collective action for the establishment of mechanisms to secure equitable and remunerative prices and to stabilize markets for basic export commodities, to the concession of preferential treatment in trade relations among developing countries, the promotion of payments arrangements, joint action in industry, science, technology, transport and shipping, and co-operation in the use of financial resources available for development.

6. At present, a number of initiatives are beginning to give positive shape to the new trend towards collective self-reliance. Significant among them are a number of bilateral ventures among developing countries, particularly in the productive sectors, the bilateral and multilateral financial support given by oil-exporting States to other developing countries, and the organization of producers' associations and marketing schemes aimed at securing fair and stable prices for certain commodities and increasing the producers' share in their transportation, marketing and distribution. In addition, trade relations among developing countries are being facilitated by new preferential arrangements and payments agreements at the subregional level.

7. These new steps towards economic co-operation among developing countries, as well as those leading to the restructuring and strengthening of existing integration schemes, represent the type of action which implements the principles of collective self-reliance and interdependence. It should be pointed out, however, that some of the new ventures in co-operation, because of their *ad hoc*, short-term or discontinuous nature, could fall short of the expectations placed on them if they did not develop a self-generating momentum. Moreover, what has been achieved so far could not by itself lead to the emergence of a consistent set of measures designed to secure the greatest possible advantage from the economic interdependence of the developing countries. Also, some caution should be exercised to ensure that special ties based on geography, history or culture, which often give rise to fruitful co-operation among particular groups of countries, do not lead to undue discrimination against other developing countries. Finally, it is becoming increasingly evident that the vigorous pursuit of self-reliance and the implementation of concrete schemes of economic co-operation among developing countries could be seriously hampered by the absence of institutional structures specially geared to existing possibilities.

8. Unity of action among developing countries is reinforced by their advantage in population and in the natural resources which they possess. These favourable conditions, apart from opening new opportunities for development, enhance the collective bargaining power of the developing countries vis-à-vis the developed world. In addition to the points raised in the present report, there are other specific issues in which an increased bargaining power would be of benefit to developing countries, particularly those relating to the proposed integrated programme for commodities, the transfer of technology and international monetary arrangements. The consolidation and effective use of the developing countries' combined bargaining strength in international economic relations may therefore be regarded as a major objective of economic co-operation among those countries.

[2] Para. 39 of the Strategy.

[3] General Assembly resolution 3201 (S-VI) of 1 May 1974.

[4] General Assembly resolution 3202 (S-VI) of 1 May 1974, section I, para. 1 (*b*).

[5] General Assembly resolution 3362 (S-VII) of 16 September 1975, section VI, para. 1.

9. The development of an integrated global system for economic co-operation among developing countries would help to avoid inconsistencies and fragmentation in the pursuit of collective self-reliance. Apart from being open to the developing countries of all regions, such a system should incorporate in a harmonious manner several measures and elements designed to secure the greatest advantage from multinational action. Accordingly, it should include:

(*a*) The strengthening and broadening of subregional and regional economic co-operation in a manner consistent with global co-operation among developing countries as a whole;

(*b*) A set of interrelated policies, mechanisms and institutions designed to implement new forms of joint action within a wide framework of third-world co-operation, with the inclusion of special provisions in favour of the relatively less advanced countries.

10. The elements which could form the core of this system of economic co-operation among developing countries are outlined in the remainder of the present report, which is intended to initiate the consideration of this aspect of a new global development strategy. As a first step, the developing countries might wish to approve in principle the setting up of such a system, including its main components. If they were in a position to do so by the time the fourth session of the United Nations Conference on Trade and Development took place, a draft decision on this subject could be submitted to the Conference for the information of the international community and for subsequent general endorsement. At the same time, the United Nations system might be designated as the institutional forum within which the further elaboration of the proposals should be undertaken and specific action pursued.

## CHAPTER II

## *The strengthening of economic integration*

11. The strengthening of regional and subregional economic groupings would necessarily assume different forms, according to the peculiarities of the existing or emerging schemes. At the same time, it should be emphasized that, in spite of the difficulties which several of the integration groupings have faced, the countries participating in them may be best placed to initiate some of the newly suggested forms of economic co-operation, either among the present members of those groupings or through a process of outward expansion.

12. The accumulated experience of economic integration schemes among developing countries indicates a few areas where improvement and new initiatives require priority attention. First, intergovernmental machinery and community institutions need, in many instances, to be improved in ways which would better harmonize national and common interests and better serve the agreed objectives of the economic integration of the grouping concerned. The technical capacity of the developing countries needs to be strengthened so that they may make the most effective use of the existing instruments of economic integration.

13. Secondly, the existing instruments themselves need in many cases to be revised so as to make them more effective. This is particularly true with respect to trade liberalization régimes, systems of common external protection and common fiscal incentive schemes.

14. Thirdly, the measures which have been adopted to secure greater benefits for the least developed member countries of economic groupings need, in many cases, to be revised and endowed with an element of automaticity, with the aim of making them more effective. Considerable emphasis should be placed on this, since the failure of the existing devices for benefiting the least developed countries has been one of the most important obstacles to fully-fledged economic integration among developing countries.

15. Fourthly, and most important, emphasis should be shifted decisively from trade matters toward joint endeavours in the development of regional industrial and agricultural resources and of a common transportation infrastructure. The transitional preoccupation with reliance on market mechanisms through trade liberalization and external protection have had only a limited impact on growth, virtually none on structural development and, through the imbalances they create, have raised political obstacles to co-operation even before any substantial economic gains could be secured for the co-operating countries. Although the importance of co-operation in production is recognized and provided for in some economic integration treaties, in practice this form of co-operation has been relegated to a secondary order of priority in most integration groupings. The proposed new emphasis on production should also involve common approaches to the transfer of technology and the development of indigenous technological capacity, and to foreign capital and transnational corporations.

16. The promotion of economic co-operation in the developing world as a whole could be fostered through the strengthening and outward expansion of regional groupings. Existing schemes could conceivably attract new full-scale members whenever their participation was politically and economically feasible. In some instances, this could be initiated through participation by non-member countries in the implementation of pilot projects carried out by those groupings in fields not so far covered by co-operation arrangements. The outward expansion of existing integration schemes could also proceed on the basis of limited and selective exchanges of concessions and other forms of mutual support between groupings and prospective partner countries, or between groupings themselves. This could lead to a more comprehensive involvement of neighbouring States in, so to speak, a series of concentric circles corresponding to varying degrees of economic integration.

## CHAPTER III

## *The main elements of a system of economic co-operation among developing countries outside the framework of integration groupings*

17. Alongside the measures adopted to strengthen and broaden regional and subregional economic integration, a

global system of economic co-operation among developing countries would require the adoption of policies and mechanisms necessary for new forms of joint action outside the framework of integration groupings, consistent with regional and third-world objectives and providing for special benefits for the least advanced countries. The fields which could be covered are many. It would seem advisable, however, that as a first approach such coverage should be confined to the most critical areas. In this connexion, it should be pointed out that, although the importance of multinational co-operation for the creation of physical infrastructure cannot be minimized, this facet of co-operation has already been largely explored and implemented in several parts of the world, both within and outside integration schemes, so that it might not be necessary to emphasize it as one of the fields in which new mechanisms and devices should be adopted. On the other hand, there are three fields in which it seems essential to adopt measures to facilitate and promote co-operation among developing countries outside the framework of integration groupings. These are trade, production and development finance.

### A. Trade expansion

18. Trade expansion among developing countries should be viewed as part of a system of economic co-operation, rather than as an end in itself to be brought about by a set of isolated measures. Consequently, it should necessarily be conditioned by the particular objectives of co-operation schemes. It would not in any sense be the automatic result of traditional measures of trade liberalization and the free play of market forces, but would rather be the outcome of a set of programmed actions related to those taken in the field of production. In accordance with this conception, trade expansion could be promoted by three major and complementary sets of instruments: first, a system of preferences among developing countries which would set in motion the process of the liberalization of access to markets; secondly, a system of devices to promote trade actively and to improve the trading position of the developing countries, including the establishment of multinational import and export enterprises, the multinational pooling of imports on a selective basis together with the grouping of marine cargoes, co-operation among State trading entities and the application, where appropriate, of multinational purchase and supply commitments under medium and long-term contracts; thirdly, a system of payments, including clearing arrangements, interregional payments schemes and reciprocal credit support and joint reserve management.

#### 1. *The system of preferences*

19. Although the principle of trade preferences has proved relatively successful in various subregional groupings among developing countries, preferential arrangements at the regional and interregional levels among those countries are still at an early stage. Together with measures of a more active nature, therefore, the emerging strategy for economic co-operation could include a more vigorous development of preferential trading relationships at all levels, with a view to establishing ultimately a comprehensive and well-structured system of preferences for the third world as a whole.

20. The basic objectives of a third-world preference scheme would be to provide a limited advantage in favour of developing-country suppliers vis-à-vis imports from developed countries, and to ensure an equitable distribution of the costs and benefits of the scheme among the individual participating countries. To achieve these goals in a meaningful manner, the scheme would need to take into account the basic interests and widely differing economic situations of the developing countries, their distinct export product patterns and the existing disparity in their reliance on different trade policy instruments. In fact, the frequency of such disparities requires that tariff preferences be complemented by a greater flexibility in non-tariff barriers in cases in which these preclude access to markets. Otherwise, the countries which rely mainly on tariffs to protect their industries and safeguard their payments position would be at a disadvantage vis-à-vis those which apply other import restrictions.

21. As a consequence of these objectives, and in keeping with the spirit of the new international economic order, a third-world preference scheme should emphasize participation and solidarity rather than the principles of strict reciprocity. Although it should be sufficiently simple in its application, it should also make adequate provision for the possible participation of subregional and regional groupings and should take into account the special situation of the least developed countries. Accordingly, a comprehensive system of preferences among developing countries could be based on the following major elements:

(*a*) The coverage of traditional and non-traditional exports of developing countries, including manufactures, agricultural and processed agricultural products and other commodities;

(*b*) The inclusion of both tariff and non-tariff barriers which preclude or severely limit access to markets, such as quantitative restrictions, licensing, import prohibitions and foreign-exchange restrictions;

(*c*) Multilateral negotiations leading to concessions for groups of products at the subregional, regional and third-world levels; such concessions should not necessarily aim at full trade liberalization but could be restricted to intermediate and realistic targets;

(*d*) The possible inclusion of contractual commitments regarding supplies and purchases over mutually agreed price ranges as a technique for balancing concessions within multilateral agreements, mainly in connexion with public sector purchases and commodities handled by State trading agencies;

(*e*) Special preferential concessions for the exports of the relatively less advanced countries, taking into account the special circumstances in each particular case and linking these concessions to more active measures in the fields of production and finance.

22. The third-world preference system could follow three interrelated approaches. One would consist of negotiations within existing and emerging subregional co-operation or integration groupings. Another would involve the formulation of regional scheme covering the main geographical areas, which would not only ensure the outward-oriented development of integration groupings but also permit their harmonious co-operation with non-member countries in the same region. Over and above these two approaches, a third-world scheme could be applied; thus, interregional preferences would form part of regional preferences and both would be incorporated in subregional co-operation or integration schemes.

23. Once the main elements of the structure of the scheme are defined, the question arises as to the best way to implement it. The basic negotiation of the comprehensive approach at the third-world level would need to be undertaken, but once the broad framework was defined, a pragmatic approach could consist of the step-by-step building of the system on the basis of existing or emerging subregional, regional and interregional schemes, including the GATT Protocol relating to Trade Negotiations among Developing Countries.[6] It would be possible to integrate progressively in these schemes the basic features of the third-world system. In addition, such a procedure could have the advantage of linking preferential arrangements to payments schemes which should form part of the global system of economic co-operation among developing countries.

### 2. *Active measures of trade co-operation*

24. Co-operation among developing countries in the field of trade should aim not only at facilitating commercial transactions among them, but also at promoting their trade relations through special agreements and improving their trading position vis-à-vis the developed countries in regard to both exports and imports.

#### (a) *Trade agreements among developing countries*

25. Medium and long-term contractual agreements are an effective means of directly expanding trade and creating new trade flows among developing countries, particularly in the initial phases of co-operation. These arrangements should involve commitments to supply and purchase specific commodities within mutually agreed price ranges over given periods of time. Apart from introducing into trade relations a degree of stability consistent with the over-all plans of both the exporting and the importing countries, such arrangements would open up the possibility of compensating disequilibria in trade flows or in the distribution of benefits deriving from joint projects. Furthermore, they would help to avoid the need to direct exports mainly to markets where they are paid for in convertible currencies. Possibilities for contractual agreements of this kind could be provided for in the context of negotiations on preferences among developing countries or as a by-product of close co-ordination in the operations of public-sector institutions and State trading organizations.

#### (b) *Measures for improving the developing countries' trading position in regard to exports*

26. A feature of the export trade of developing countries is its dependence on the marketing systems and distribution channels of the developed countries, especially those organized through the intra-firm transactions of transnational corporations and through commodity markets or exchanges located in and controlled by developed countries. This helps to explain why the value-added share retained by developing countries in most primary commodities is a minor proportion of the final selling price (in certain cases no more than 10-15 per cent). Since many developing countries, often in the same region, export the same product to the same markets or transit points in developed countries, various types of joint action could be organized to increase the net proceeds accruing to the developing countries from their export products.

##### (i) *Producer associations*

27. Co-operation in this field should aim at the strengthening of existing producer organizations – particularly through expanded developing-country membership – and at the formation of associations for commodities which are not currently covered by such arrangements. While in many cases these associations may undertake joint action aimed at improving and stabilizing prices, they may also promote other measures intended to increase the returns to producers, such as co-operative efforts in processing, product improvement, technical support, and direct marketing, distribution and shipping. One of the tasks of such associations, therefore, should be to identify the particular measures or combination of measures which would be the most effective in securing the best results for developing producer countries. The effectiveness of unified action in international markets could be further improved by some institutional linkage among the various producer associations. This could provide a permanent forum in which regular consultations could take place regarding developments in the world economy and international trade policy as they affect commodity markets, and regarding the support which might be needed within the framework of collective action by producers of specific raw materials.

28. In this connexion, it may be noted that the Conference of Ministers for Foreign Affairs of Non-Aligned Countries, held at Lima in August 1975, called on developing countries to consider the possibility of joining existing producer associations or to establish new ones as a means of increasing their effectiveness in international markets. The Conference also approved, in conformity with a resolution of the Conference of Developing Countries on Raw Materials, held at Dakar in February 1975, a resolution establishing a Council of Associations of Developing Countries Producers-Exporters of Raw Materials.[7] A group

[6] See GATT, *Basic Instruments and Selected Documents, Eighteenth Supplement* (Sales No. GATT/1972-1), p. 11.

[7] See "Lima Programme for Mutual Assistance and Solidarity" (A/10217 and Corr.1), annex I, resolution XI.

of experts is in the process of preparing the draft statutes for its establishment.

(ii) *The creation of multinational marketing corporations*

29. The concentration of the developing countries' trade, geographically and by commodity, provides a ready-made opportunity for them to increase their earnings by participating jointly in some of the marketing and distribution functions at present performed by developed countries' institutions. Such benefits would be especially important in the case of commodities for which producers cannot easily secure substantial price increases through collective action, except over long periods. In addition, multinational marketing corporations could serve to eliminate uneconomic intermediation by developed countries' institutions in trade among the developing countries themselves and to expand more vigorously exports to non-traditional markets, particularly to the socialist countries of Eastern Europe. Similarly, they could promote a greater participation of the developing countries in the shipping of their own exports, since the pooling of marine cargoes would be an important step towards the creation of more economic conditions for the operation of co-operative ventures in this field.

(iii) *The creation of commodity markets in developing countries*

30. The geographical and commodity concentration of the principal exports of developing countries gives rise to the possibility of the joint organization of commodity markets or exchanges controlled by and located in these countries. The existing system, which has evolved historically from circumstances very different from those of the present time, bears little or no relation to the economic interests of the developing countries. A collective approach on this front would be indispensable to effective action, since the situation in these markets is one in which transactions are between competing sellers and oligopolistically organized buyers, often operating with speculative motives.

(iv) *Organization of joint market intelligence services*

31. These services may be more efficiently and effectively organized on a joint basis by groups of developing countries and could be located in the major purchasing centres, including the socialist countries of Eastern Europe. The development of such a network of services should make it possible eventually to collate information quickly on a world-wide basis.

(c) *Measures for improving the developing countries' trading position as regards imports*

32. The situation with regard to the import trade of the developing countries also presents a very one-sided picture. The procurements of over 130 developing countries, about 120 of which can be regarded as having comparatively small-scale import sectors, are concentrated on less than a dozen major industrilized countries and their transnational corporations. Multinational import co-operation would therefore be a useful instrument for improving the developing countries' trading position vis-à-vis the developed countries, and at the same time such co-operation could be used to stimulate trade among the developing countries themselves.

(i) *Joint public sector purchasing*

33. Joint public sector purchasing should provide an immediate possibility of effective co-operation among developing countries, since even where no general State trading system is in operation, most Governments import, on their own account, materials for State-owned enterprises, public institutions and services and for infrastructure projects.

(ii) *Joint operations by State trading corporations*

34. State trading institutions exist in many countries and they are being established in others. They provide an immediate means for co-ordinating information and, where convenient, for undertaking joint operations in at least a few imports of high unit value or of critical importance in terms of their aggregate value.

(iii) *The use of joint invitations to tender*

35. Since the execution of infrastructure and other construction projects is subject to international bidding in many countries, and these bids are likely to be more competitive for large than for small tenders, substantial savings could result from multinational co-operation, not only at the public sector level but also among private institutions. The potential importance of this is illustrated by the fact that between 1969 and 1972 the developing countries imported $107.8 billion worth of machinery and equipment.

(iv) *Joint import agreements*

36. Joint import agreements could cover the purchase of single commodities or of several commodities together. Their aim would be to secure the best available terms in the purchase of imports and technology through effective competition and the economies associated with large-scale, long-term contracts.

(v) *Organization of information exchange services*

37. Exchange of information might begin immediately with regular exchanges among regionally-grouped countries of reports on the terms prevailing in markets for a limited number of commodities of special interest to them – in many cases relatively homogeneous products of high import value. Such services might later be expanded on an interregional basis.

### 3. *The system of payments*

38. The flow of trade among developing countries is in many cases impeded by payments difficulties. In anticipation of such constraints, and in order to facilitate the

liberalization of trade régimes, a scheme of payments facilitation must be envisaged as part of a system of economic co-operation. Indeed, it should be borne in mind that, even where no payments restrictions exist, the use of national currencies to finance trade, including invisibles, tends to reduce the over-all costs and risks of mutual transactions.

(a) *Clearing arrangements*

39. Co-operation in the field of payments could be approached initially through the establishment of a network of clearing arrangements at the subregional level, the creation of linkages between those arrangements on a regional basis and the further extension of such linkages to schemes in different regions, so as to create ultimately a system of payments covering the whole of the third world. Furthermore, the system of linkages could also be extended to the settlements scheme of the socialist countries members of the International Bank for Economic Cooperation.

40. In some cases, the clearing schemes could be built up through bilateral arrangements linked together in a multilateral framework, as is done by the countries members of LAFTA, where each pair of central banks is free to work out its mutual credit lines, but where the clearing is calculated simultaneously and multilaterally by a single agent, which simply directs debtor central banks to make specified payments to specified creditor central banks without participating in the settlement process itself. Alternatively, a multilateral clearing system with a centralized clearing house is possible. Under such a scheme, credit lines are established between each participant and the clearing house, and payments are made to and received from the clearing house. This is the system operating in Central America and envisaged in the Asian and West African schemes.

41. Fluctuating exchange rates for several of the major world currencies could have repercussions on clearing arrangements in those developing regions where different intervention currencies are used by the various countries, e.g. West Africa and Asia. The problems involved could be alleviated through the use of a non-national unit of account such as the special drawing right, or one independently determined by the member central banks, which would result in the distribution of the exchange risks between the two central banks involved in a particular trading transaction within the region.

(b) *The linkage of clearing arrangements*

42. While the amalgamation of two or more subregional clearing systems might be administratively cumbersome and not justified in terms of the volume of transactions between the groups in question, a group-to-group link might well prove mutually rewarding, particularly where bilateral payments agreements between countries belonging to the two groups tended to depress actual trade flows below their potential levels for the sake of bilateral balancing. Such a series of links might provide the basis for interregional monetary arrangements and institutions spanning the entire third world. Thus, a counterpart to the Bank for International Settlements, serving as a central bank for the central banks of the developing countries, might be envisaged. Other proposals could also be considered, such as the creation of international liquidity units acceptable throughout the developing countries.

43. In order to initiate the linkage between the several subregional or regional clearing arrangements, three practical alternatives could be considered:

(i) A country which was a member of a clearing arrangement could participate in another such arrangement which was not incompatible with it and which provided the country involved with the advantages of multilateral compensation in both systems (e.g. a member of LAFTA participating in the Central American Clearing House);

(ii) A country member of a clearing arrangement could sign bilateral agreements with countries members of another clearing arrangement based on a network of bilateral agreements (e.g. a member of the Central American Clearing House might enter into agreements with one or several members of the LAFTA clearing scheme);

(iii) Agreement could be reached between two or more clearing arrangements.

(c) *Reciprocal payments support and joint reserve management*

44. The credit element in the existing clearing arrangements is only a minor one and is not regarded as one of their main objectives. However, the fact that the two Latin American clearing arrangements have preceded mutual support agreements covering roughly the same group of countries is no mere coincidence, because the spirit of mutual trust among the respective central banks built up through closer working contacts in the clearing arrangements was an indispensable element in the subsequent agreements involving mutual balance-of-payments support. Such agreements, therefore, could be a second step in the establishment of a system of payments co-operation.

45. One objective of reciprocal payments support arrangements is to provide member countries with a third line of reserves over and above those held nationally and those available unconditionally or conditionally from IMF. Another objective of such arrangements is the visible implementation of the principle of collective self-reliance, together with independence from the constraints on national economic policies that borrowing from foreign national or international agencies might impose.

46. In practice, a multilateral system of mutual support could include bilateral agreements. Bilateral forms of mutual support have in fact been successfully attempted in recent years on the basis of deposits, maide by a central bank of a developing country in surplus, with the central bank of a developing country in deficit, thereby strengthening the latter, but also diversifying the financial and political risks taken by the former. Bilateral "swap" agreements, which have constituted such an important

feature of co-operation among the central banks of developed countries, could be envisaged by developing countries as well.

47. Bilateral forms of support can be co-ordinated within a multilateral framework without losing their essentially bilateral legal form. This is what has been achieved by the LAFTA countries and the Dominican Republic within the framework of mutual support arrangements limited at the present stage by three conditions, namely, that a country asking for support (*a*) should, in its own judgement, have insufficient reserves; (*b*) should have a global balance-of-payments deficit; and (*c*) should have experienced a deterioration in its net balance of trade vis-à-vis its regional trading partners participating in these support arrangements, as reflected in the multilateral clearing mechanism.

48. A fully multilateralized form of mutual support has been devised in Central America by means of a subregional monetary stabilization fund functioning along lines similar to those of IMF, where the country's global deficit and its adjustment policies are the prime criteria for obtaining support from its partners. Although the regional trade balance does not figure as one of the criteria, it is evident that the partners wish to prevent payments restrictions stemming from global balance-of-payments difficulties from being imposed on their mutual trade. A regional fund can be strengthened by external support from non-members, and this has been true of the Central American Monetary Stabilization Fund.

49. The Central American scheme could serve as a prelude to an actual reserve pooling scheme involving the joint management of a certain part of the national monetary reserves of the countries concerned; this is an idea being pursued actively in the Andean Group and in Asia under the auspices of ESCAP. To the extent that such reserve pooling is achieved, the combined weight of such pools will give their member central banks added bargaining strength for better deposit conditions vis-à-vis the large financial reserve centres, as well as additional capacity to float loans in the capital markets. Moreover, the pooling of information and know-how by these reserve pools would give their managers a potentially better opportunity for minimizing exchange risks and optimizing exchange profits in a world of fluctuating exchange rates. Finally, the creation of reserve pools covering a sufficiently large number of countries would permit at least a portion of the combined exchange reserves to be repatriated to the region concerned without affecting the position of individual member countries in regard to international liquidity.

### B. Co-operation in production

50. Co-operation in production among developing countries is still at an early stage of development and has not yet given rise to a significant expansion of complementary production structures in the third world. However, the development of such complementary productive capacity constitutes a major precondition for the expansion and diversification of trade among developing countries. In the past, scarcity of entrepreneurial, financial and technological resources, as well as the small size of most national markets, have constituted serious obstacles to the development of multinational enterprises. A global system of co-operation among developing countries should therefore include, as a basic element, the necessary incentives and mechanisms to support parallel efforts at the national level.

51. Until now, joint ventures have been mainly the result of *ad hoc* arrangements, and, with the single exception of the Andean Group's sectoral agreements, do not involve broad programmes of a multinational character. Several of these ventures, moreover, have only limited objectives, such as production for the host-country market or the securing, for relatively more advanced countries, of assured supplies of raw materials.

52. On the other hand, the number of projects and proposals for joint ventures in many developing countries, covering a variety of activities, has substantially increased in recent years. For particular industries, especially in the export sector, it may continue to be necessary for some time to come to purchase technology from developed countries. However, the prospects for co-operation in production among developing countries are very favourable, in view of those countries' growing technological capabilities, the relative scarcity of certain raw materials and the availability of financial resources in those countries themselves.

53. These opportunities would appear to call for organized collaboration and negotiations on lines designed to identify and exploit multinational combinations of natural resources, technology, management, finance and markets, promoted through joint enterprises. The various possibilities of combining these factors provide a powerful incentive and rationale for multinational co-operation among developing countries in the productive sectors. Such co-operation, if based on mutually equitable contractual arrangements, could take full advantage of the economies of scale which certain enterprises require to achieve in order to become economically viable.

54. At present, however, a number of joint ventures between various developing countries differ little from those established by developed-country enterprises in individual developing countries. The traditional character of all these ventures arises from the combination of equity participation and technology supplied by developed-country enterprises. However, in certain circumstances, the availability of equity financing from a developing country could facilitate the dissociation by the host country of the elements of technology from those of the capital.

55. A variant of the latter type of joint venture would ensure the provision of both equity financing and technology by a co-operating developing country. The advantage in both the cases quoted would be the opening up of possibilities for the application of developing countries' technologies and the creation for the host country of an alternative to exclusive reliance upon similar arrangements with developed countries.

56. To balance the interests of participating countries and to enhance the prospects for development, the emphasis in joint enterprises should be placed less on equity financing than on factor complementarity. In fact, in some cases it may be desirable to replace equity participation by long-term loan financing combined with commitments for the supply of inputs or the purchase of part of the output.

57. Factor complementarity would lead to a better use of resources, diversification of production, economies of scale and specialization, an improvement in a country's prospects in the markets of third countries, or a combination of all or several of these results. The complementarity of resources on a global basis would widen the economic options of co-operating countries beyond those offered within narrow geographical limits, and would expand the possibilities of achieving integrated production structures in individual countries and in subregional economic groupings having at their disposal a limited range of primary materials. Undoubtedly, such complementarity serves to make the enterprises based upon the resources in question economically viable and of mutual interest to the participants. It permits the setting up of individual or joint enterprises or cross-participation in enterprises covering a limited number of production stages in sequence within a productive sector, without requiring special compensation mechanisms and multinational institutional structures to back them up. Consequently, agreements to establish joint productive enterprises based on factor complementarity are easier to negotiate than projects forming part of large multinational planning schemes for industry as a whole or a major sector thereof; such objectives can only be pursued with some chance of success within a comprehensive system of integration arrangements and close political collaboration.

58. In many instances, co-operation in production may require parallel efforts for the development of infrastructure and common services. It appears that co-operation among developing countries in these fields has already made substantial progress, whether or not the co-operating countries participate in particular economic integration groupings. In the area of infrastructure, common objectives and the distribution of benefits can be identified relatively clearly in advance of the establishment of the project, and this may have facilitated decisions on multinational collaboration in such projects as the construction of hydroelectric plants, road networks, telecommunications and the development of water basins. In addition, co-operation in the field of infrastructure can be, and in some cases has been, an effective means of securing additional benefits for the relatively less advanced or land-locked countries.

59. A number of multinational enterprises also exist in the field of services, such as multinational airlines, joint shipping services, reinsurance pools and bilateral and multilateral finance and banking institutions. However, the need for sustained co-operation among developing countries in technological and research services is now becoming a matter of greater urgency.

60. Although the existence of different possibilities with regard to multinational enterprises makes it difficult, at the present stage, to elaborate common detailed guidelines for their organization, it is nevertheless necessary to establish a framework of measures and mechanisms, for application at both the international and the national level, in order to facilitate the establishment and operation of such enterprises.

### 1. *International instruments*

61. What kind of institutional structure would be suitable for the promotion of co-operation in the productive sectors is an open question, but it is one to which an answer must be found. Among the alternatives, one preliminary measure which could be taken would be for the United Nations system to provide the technical apparatus needed to identify and evaluate possibilities and for it to convene the intergovernmental working or negotiating groups which might be necessary to reach agreement on specific proposals. Regional and subregional development banks might participate actively in these efforts.

62. As one of the first steps in deciding which multinational enterprises should be set up, it might be advisable to draw up inventories of possible multinational projects within each region, in co-operation with regional and subregional financial institutions – and if possible with national development banks – such as the project to be carried out by UNCTAD in the Arab countries under the programme financed by UNDP and the Arab Fund for Economic and Social Development, or the infrastructure projects carried out in Latin America by the Inter-American Development Bank.

63. Apart from the problem of identification, the implementation of multinational projects presents a problem in regard to proper planning and evaluation, mainly as far as securing economies of scale is concerned. But the planning and evaluation of multinational projects are hampered by the fact that such data as exist in developing countries to meet the needs of project planning are usually collected and organized on a national basis and are often statistically incompatible with the data for neighbouring countries. There is a need, therefore, to gather the technical data to carry out the analysis of regional projects. For each particular sector of production, data on both the specific area involved and the standard elements of the activity under consideration are essential. Although many data might be obtainable from United Nations agencies and financial institutions such as the World Bank, they would obviously need to be organized, completed and updated. To meet the most pressing needs in regard to the thorough preparation and evaluation of multinational projects in the productive sectors, the United Nations agencies involved and the multinational financial institutions could be requested to organize one or several data banks.

64. To facilitate the preparation of projects and the financing of multinational enterprises, regional and subregional development banks should give special preference to and earmark non-reimbursable funds for pre-investment activities related to co-operation in the productive sectors. They could also make use of the possibilities provided in

their charters for equity participation in productive ventures and, where such provisions were not included, establish specialized subsidiaries for that purpose. The activities of IFC could also be intensified and directed more towards multinational enterprises in developing countries. Equity financing by such institutions, even if small, could act as a catalyst for other commitments and could make for increased confidence in multinational enterprises. The financial institutions might also take the initiative in establishing regional technological facilities and institutions for project preparation and implementation.

65. An essential element for co-operation in production is the improvement of the scientific and technological infrastructure of developing countries. Important progress has been achieved by some developing countries in the development of an indigenous technological base, training facilities and negotiating capacity with respect to foreign technology transfer. The dissemination and exchange of their experience and technological knowledge would prove useful for other developing countries. Intensive efforts need to be made to establish centres for the transfer and development of technology at the subregional and regional levels, with appropriate links between them. Such centres, if established in sectors of particular interest to the developing countries concerned, and provided they were closely linked to institutions directly responsible for development in the productive sectors, could become important instruments through which possibilities for co-operation in production among developing countries could be identified and implemented. The centres could, *inter alia*, draw up and assess inventories of technologies available in developing countries and could help to define such technologies and to negotiate their transfer among such countries. They could actively promote new projects for multinational enterprises and carry out specific technological research projects of direct interest to producers in various developing countries, including the adjustment of foreign technologies to their own specific conditions and requirements.

66. The feasibility of establishing specialized technology trading enterprises in developing countries for the commercialization and dissemination of technology in developing countries might also be explored on a national, subregional or regional basis. Close co-operation among a group of developing countries, whether institutionalized in this manner or on more general lines, could substantially improve their negotiating position with respect to the terms and conditions of the transfer of technology from developed countries, and assist in identifying sources of supply of technology.

67. Another possibility for collective action to facilitate co-operation in production concerns the field of training, with respect to both technical capabilities and management. Joint action on a subregional or regional scale could provide a useful alternative to national facilities where the latter did not appear feasible. The co-ordination of training programmes, the organization of seminars and the exchange of personnel in the technical, economic or juridical fields open up a wide area for joint action by developing countries at the bilateral, subregional, regional and interregional levels.

### 2. *Measures at the national level*

68. In addition to international action, consistent policy measures at the national level need to be adopted in the developing countries themselves to promote initiatives, pursue negotiations and organize the establishment of multinational enterprises. Public sector involvement can be of major importance in determining the success of multinational enterprises, and a number of specific measures can substantially facilitate the smooth operation of such enterprises once they are established. Most of these facilitating measures can be implemented autonomously by the countries concerned, but they may also become elements in bilateral or multilateral agreements aimed at ensuring that the operations of multinational enterprises contribute to attaining the development objectives of the co-operating countries. These measures could include those detailed in the following three paragraphs.

(a) *Provisions regarding tariffs and import restrictions*

69. The access of inputs from partner countries for joint processing would have to be fully liberalized. With regard to output, if markets were shared, the importing countries would have to grant free access to their own markets. This provision could be reinforced either by an agreed margin of protection vis-à-vis competing third countries or by a quantitative import guarantee given by the importing countries. In both cases, it would be necessary to have a clear understanding in advance concerning price clauses, quality and standards.

(b) *Foreign exchange provisions*

70. Equity participation and trade may call for certain adjustments in foreign-exchange régimes so as to permit regular transfers of export receipts, interest, dividends, salaries and capital between the participating countries.

(c) *Fiscal incentives*

71. Multinational enterprises should, in accordance with national development objectives, benefit on an equal footing from fiscal incentives enjoyed by national enterprises in the host country. A case might also be made for granting special preferential status for high-priority industries.

72. In order to secure the harmonious operation of multinational enterprises and the application of the necessary measures at the national level, a clear definition of the main long-term characteristics of each particular enterprise, and of its operating principles, would be necessary. This should include rules regarding management and an understanding as to the manner in which decisions would be adopted and policy formulated.

## C. Development finance

73. Measures to improve the availability of capital on terms consistent with the promotion of co-operation in production complete the package of the basic elements

which could constitute an interrelated system for economic co-operation. In this connexion, it should be recalled that the emergence of sizeable payments surpluses in some oil-exporting developing countries has opened up new opportunities for financial co-operation between them and other developing countries. Such co-operation, moreover, could be enhanced through a triangular relationship between these two groups and the developed countries.

74. It should be emphasized, however, that the payments surpluses of certain oil-exporting countries result from the extraction of exhaustible natural resources over and above their current needs. Such surpluses are qualitatively different from payments surpluses derived from the sale of renewable goods and services. Whereas the latter can properly be viewed as a net income flow, the former are more in the nature of a stock of capital upon which the owners rely to finance the acquisition of advanced economic structures for the period when their petroleum resources have been depleted. On the other hand, a large number of developing countries are now facing unprecedented balance-of-payments deficits, which are likely to persist for years, and most of them will continue to require external long-term development finance.

75. The response of several countries in surplus to this new situation has been encouraging in many respects, particularly with regard to the over-all volume and terms of the concessional assistance they have provided. Measured in terms of their GNP, these flows have been considerably larger than those of the traditional aid donors. The new donors have also responded generously with respect to certain non-concessional re-cycling mechanisms such as the purchase of World Bank bonds, as well as lending to the IMF oil facility; such action has eased many developing countries' pressing payments problems without affecting the international liquidity of the new donors.

76. It should be pointed out, however, that so far the new flow of financial resources has evolved in a spontaneous and largely unco-ordinated fashion, owing to the fact that several of the countries newly in surplus have had only limited experience in development finance, and even those with such experience have seen the scope of their programmes vastly expanded. A large number of multilateral financial institutions and *ad hoc* funds have been established, many of which have similar objectives; the activities of some overlap with those of others or with the activities of multilateral financial institutions already in existence.

77. On the other hand, the assessment of the future needs of both "surplus" and "deficit" developing countries calls for new types of action to create an organized system of financial co-operation among themselves, and their strengthened position in the world economy enables them to do so. This financial system linking developing countries, as part of the new international economic system, could (*a*) provide for balance-of-payments adjustments assistance, (*b*) support the stabilization of commodity export prices at equitable and remunerative levels, and (*c*) serve as a framework for long-term development finance.

### 1. *Balance-of-payments support*

78. At present, developing countries in surplus are providing balance-of-payments support by various means, in particular through the IMF oil facility and, more directly, through the deferral of payments for the oil imported by certain developing countries, the central banks of the "surplus" countries transferring deposits to the central and commercial banks of the "deficit" countries. In the future, however, the countries most seriously affected by the world economic crisis ought to receive a greater priority than has been assigned to them hitherto, with respect to that type of support. Moreover, in order to lower the cost of balance-of-payments assistance, an effort should be made to increase the grant element in such flows.

79. Guarantees given by the central banks of financially strong developing countries in respect of loan issues on the world's capital markets floated by developing countries with a lower financial credit rating constitute an effective form of triangular financial co-operation. In this way, access to the capital market of a third country can be facilitated without any disbursement on the part of the guaranteeing country. This device could alleviate balance-of-payments difficulties and at the same time provide a source of long-term financing.

### 2. *Support of commodity prices*

80. Since commodity exports still constitute the major source of foreign exchange for developing countries, third-world solidarity could be effectively demonstrated through collective action to support the prices of major export commodities at stable and remunerative levels. This could take the form of participation in the common fund envisaged in the proposed integrated programme for commodities. Developing countries have already demonstrated their readiness to start a scheme of this type of their own, in view of the urgency of the matter and as a demonstration that this new approach is vital to their common interest. Thus, in implementation of a resolution adopted at the Conference of Developing Countries on Raw Materials, held at Dakar in February 1975, the Conference of Ministers for Foreign Affairs of the Non-Aligned Countries, held at Lima in August of the same year, decided to establish a special fund for financing buffer stocks of raw materials and primary products exported by developing countries,[8] and agreed on a time-table for the preparatory work necessary for the setting up of this fund. Since such a scheme does not contravene the long-term interest of the developing countries, there should be an option for them to participate in it on appropriate terms, so as to render the fund more universal in nature and facilitate producer-consumer co-operation. The financial support for such a scheme, which should be broadly based, would be in the nature of an investment generating sufficient returns to ensure its smooth and continued operation.

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[8] See "Lima Programme for Mutual Assistance and Solidarity" (A/10217 and Corr.1), annex I, resolution XII.

### 3. *Long-term development finance*

81. Financial co-operation among developing countries in regard to long-term development finance could take the form of loans, guarantees and equity financing for multinational enterprises. The experience that has already been accumulated in this respect, short as it may be, throws light on what the main possibilities are in this respect.

82. A device which might be given further consideration is the creation of an investment guarantee scheme which would be conceived as a measure of support on the part of the international community. Although the developed countries would be the major contributors to the financial basis of such a scheme, developing countries which were in a position to do so could also lend it their support. The schemes that have already been proposed to this end could be further explored – and geared to the requirements of present circumstances – by UNCTAD and other interested institutions.

83. A second device would involve the subsidization of interest payments, which has already been instituted in the case of the IMF oil facility and the "third window" of the World Bank. Previous studies of interest-subsidization proposals need to be reviewed, in view of their relevance in the context of the possibilities of financial co-operation among developing countries.

84. It might be the general opinion that those countries having large balance-of-payments surpluses should be prepared to provide relatively greater financial flows to other developing countries than those with smaller surpluses. It might also be desirable that such countries should make known the amounts of capital they would be prepared to use for investment purposes, in order to facilitate programming in individual recipient countries or groups of countries. This would in addition facilitate the operation of any guarantee scheme that might be instituted.

85. The terms on which financial flows are directed by "surplus" developing countries to other developing countries ought to take into account the recipients' *per capita* GNP levels and their expected ability to service further debts. This last consideration is becoming increasingly relevant in view of the rapidly growing indebtedness of many of the developing countries and the need to ensure that the financial flows originating with the new donors do not precipitate debt crises for recipients already heavily in debt to traditional donor countries. Differentiation among recipients along these lines should be graduated, so as to avoid a rigid and necessarily arbitrary division of recipients into two or three categories.

86. In order to avoid the concentration of bilateral assistance on a small group of recipients, funds should be channelled to a greater extent than previously through multilateral institutions. Such an approach could be achieved by direct support for multilateral institutions through the creation of *ad hoc* or permanent funds or by the establishment of trust funds to be administered by them. Trust funds would allow for the maximum use of existing institutional facilities, without the new programmes being governed by the pre-existing policies of the institutions involved.

87. So far, co-ordination among the new bilateral and multilateral financial co-operation institutions and between them and the traditional donors has been limited mostly to specific operations involving joint financing by several of these institutions. In order to achieve a better co-ordination of the new donors' policies, one of the first measures might be to initiate centralized, regular and systematic data collection relating to all public and semi-public financial flows to other developing countries, as well as to and from global and regional financial institutions. As a universal agency in which all new donors and all recipients are full members, UNCTAD could render such a service and provide the forum for regular consultations regarding financial co-ordination and its harmonization with other efforts towards co-operation among developing countries.

CHAPTER IV

## *Measures of support for economic co-operation among developing countries*

88. The Declaration on the Establishment of a New International Economic Order thrust into prominence the reality of the interdependence of all the members of the world community and established the basis for a new strategy of international co-operation for development. The components of the new strategy were clearly defined in the Declaration, in the Programme of Action which constitutes its corollary, and in Assembly resolution 3362 (S-VII) on development and international economic co-operation.

89. One of the main elements of the strategy adopted was the promotion of co-operation among developing countries, with a view to enhancing their collective self-reliance and helping them to fulfil their role in the new international economic order. The importance of this particular element within a strategy of international co-operation for development was also emphasized at the Conference of Ministers for Foreign Affairs of the Non-Aligned Countries, held at Lima in August 1975, when it was reiterated that "co-operation among developing countries should be directed towards strengthening economic, trade, financial and other relations among them..."[9] that "co-operation between developing and developed countries and among developing countries, for the solution of world economic problems, must be encouraged and that new forms of co-operation be found and strengthened so that the true meaning of interdependence [may] reflect unequivocally the common commitment to build the New International Economic Order".[10]

90. In the light of the General Assembly resolutions mentioned above, the time now seems appropriate for the international community to proceed with the next phase in the definition of a comprehensive system of economic co-operation among developing countries as part of the new

[9] A/10217, para. 150.

[10] *Ibid*, para. 147.

international economic order. It seems particularly necessary to reach agreement on the specific areas for possible action, and to consider the most appropriate instruments to be used and the institutional and support measures which would be required to bring about a meaningful programme of co-operation among the countries of the third world.

91. The preceding chapters of the present report are intended to sketch the outline and indicate the main elements of a possible system of economic co-operation among developing countries. If the general principle of establishing such a system and those specific measures which hold the greatest potential for successful implementation were to receive the approval of the developing countries, the next step to ensure success in the subsequent phases of establishing the system would be its endorsement by the international community as a whole at the fourth session of the Conference. While the establishment of a comprehensive system of co-operation among developing countries would constitute a solemn expression of the will to strive for collective self-reliance on the part of those countries, the prospects for a rapid implementation of such an important aspect of the new international economic order would be significantly enhanced by the wide support of the developed countries, individually and through the international organizations.

92. Once the main elements of the system of co-operation among developing countries were determined, it would be necessary to make the appropriate arrangements for planning, negotiating, executing and reviewing the different activities involved. Although several of those activities could be pursued within existing subregional and regional bodies devoted to economic integration and other forms of co-operation, it would nevertheless be necessary for some negotiations and decisions to take place at the third-world level. Indeed, the detailed definition of the framework and mechanisms of co-operation should first be adopted at this level, in order to ensure the harmonious development of the system.

93. It is for the developing countries themselves to decide upon the character of the institutional arrangements which will be needed to give expression to their collective self-reliance. However, the fourth session of the Conference provides the opportunity to agree upon measures of support for such arrangements. As a first step, it could be agreed that the United Nations should provide the framework for a working group of developing countries, which would be responsible for the elaboration of the various components of the system of co-operation among developing countries and for identifying areas in which negotiations could be undertaken among the developing countries concerned.

94. Depending upon the decisions adopted by the working group, it could be anticipated that the United Nations system would co-operate with the governments concerned in the implementation of the selected programmes, and in the servicing of the ensuing negotiations which might be agreed upon by the working group. One aspect of that co-operation could be for institutions such as UNDP, UNCTAD, the regional commissions, UNIDO and FAO to provide – in their respective fields – the support and technical information needed by whatever negotiating bodies were established by the working group of interested developing countries.

95. The negotiating bodies which could emerge as a result of the discussions of the working group would not necessarily include all the developing countries participating in the group, but only those willing and ready to negotiate commitments in the field of competence of the negotiating body concerned. Thus, although the working group would provide a general framework potentially including all developing countries, the existence of negotiating bodies would ensure a flexibility that would permit the meaningful consideration of specific issues of concern to a limited number of countries, which could negotiate these issues among themselves with the co-operation of one or several United Nations bodies, as and when this was deemed useful by the negotiating countries.

96. The support activities of the United Nations system should necessarily be supplemented by action by regional and subregional institutions, including financial institutions. To ensure the effective participation of as many countries as possible in the various components of the system of economic co-operation, it would, moreover, be necessary to obtain the support of national economic and social institutions in individual developing countries.

97. Over and above their endorsement at the international level of the framework of a system of economic co-operation among developing countries, the developed countries could contribute in a number of ways to the successful establishment of the principal components of the system.

98. In relation to trade and payments arrangements, the developed countries, both market-economy and socialist, might support the setting up and operation by the developing countries of joint marketing enterprises, and facilitate the operations of such enterprises by providing them with assistance in gaining access to markets and by entering into short and medium-term purchase commitments.

99. In order to strengthen the developing countries' efforts for co-operation in production, the developed countries might consider such measures as the allocation of special funds for the purpose of furthering multinational ventures of the developing countries in the fields of feasibility analysis, project inventories, the building up and assessment of available technologies and technological research. The developed countries might also participate directly in multinational enterprises of the developing countries, in order to facilitate the transfer of technologies and management techniques, which could take place on the basis of mutually agreed "fade-out" formulae in the case of equity participation.

100. As far as co-operation for development financing among developing countries is concerned, it is also possible to envisage measures of support which could be adopted by the developed countries. For instance, they could consider favourably the establishment of one or several guarantee

schemes designed to facilitate the flow of investment capital from the "surplus" developing countries to other developing countries. Again, the developed countries might wish to consider support for interest subsidization schemes to reduce the cost of loans by "surplus" developing countries to other developing countries heavily burdened by debt.

101. The commitment by the developed countries and the United Nations system to these and other possible measures of support for co-operation among developing countries would imply the general recognition that such co-operation is no longer treated as an isolated element in international economic relations, but is rather viewed as an essential part of the general development strategy to be implemented with the support of the international community as a whole. Important as that support undoubtedly is, it is clear that the desirability of supporting action presupposes the existence of a comprehensive system of mutually consistent measures to reinforce co-operation, adopted by the developing countries themselves. In other words, the emphasis which has rightly been placed on the concept of collective self-reliance should now be translated into a definition of the necessary measures and mechanisms which could lead to concrete action in the field of co-operation among developing countries.

# DOCUMENT TD/192/Supp.1

## Elements of a programme of economic co-operation among developing countries

*Report by the UNCTAD secretariat*

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CONTENTS

*LIST OF TABLES*

CHAPTER I

## *Economic co-operation among developing countries in the field of trade: the main features of a third-world preference system*[1]

### A. A comprehensive package of principles and guidelines for negotiation

#### 1. *Objectives*

1. The essential principles for building a new international economic order appear to call for a world-wide system of preferences amongst developing countries. Such a system would consist of a comprehensive package embodying a consistent structure and redefined interrelationships in the various arrangements. The basic objectives of a third-world preference scheme would be to establish a limited margin of preference in favour of developing country suppliers vis-à-vis imports from developed countries and to provide for an equitable distribution of costs and benefits among all participating countries in general and for special measures to this end in favour of the least advanced countries in particular.

2. To achieve these objectives, a third-world system would need to take account of the basic interests and widely differing economic situations of developing countries, their distinct product patterns and the wide disparity in their reliance on different trade policy instruments. In the early stages, intermediate preference targets would therefore appear more adequate than full trade liberalization as an objective for preference schemes covering a large number of countries. The economic effects on domestic production could thus be kept within certain limits.

3. To achieve the broad goals of a preference scheme covering the whole of the third world, taking into account the varying situations of different countries, the concept of preference needs to be widened to cover not only tariff but also non-tariff barriers and other complementary trade policy instruments. An equitable distribution of costs and benefits amongst the participants presupposes that the major export products of all of them find possibilities of access to the partner countries; this in turn requires the relaxation of import barriers precluding such access. Countries protecting their domestic production by means of tariffs should be in no worse position than countries resorting to other significant restrictions for the same purpose. Even beyond that type of balancing action, additional measures may be needed to ensure that individual countries can participate in the scheme both with their exports and with their imports, so as to avoid imbalances in preferential trade leading to a net loss to them in the form of higher import prices, worsened terms of trade, reduced budgetary revenue or declining development prospects. While this should be a matter of general concern in any preference scheme with respect to all participating countries, special provisions need to be included, incorporating both advantages and exceptions from commitments in favour of the relatively less advanced developing countries wishing to participate in such a third-world preference scheme.

[1] For a more detailed discussion of a preference system in trade among developing countries, see the report by the UNCTAD secretariat entitled "Element of a preferential system in trade among developing countries" (TD/192/Supp.2).

#### 2. *Coverage and techniques*

(a) *Product coverage*

4. The preferences contained in the three existing regional and interregional trade agreements are at present limited to tariffs, and the majority of the items covered are relatively elaborate manufactured goods. In contrast, most developing countries still depend largely on exports of primary commodities, processed agricultural products and a number of simple industrial products, which normally indicate the beginning of the industrialization process. Participation by a large number of industrially less advanced countries therefore requires special efforts to include such products in the schemes. Although domestic employment considerations and the need to protect the interests of established industries constitute considerable obstacles to action on a large scale by several developing countries, a modest and gradual relaxation of the most restrictive measures in favour of other developing countries should be feasible for a large range of products if carried out in combination with adequate safeguard measures. Such action would be facilitated if it took into account the differences in the state of industrial and economic development among the countries concerned.

(b) *Non-tariff barriers to trade*

5. It appears likely that a substantial extension of product coverage and of the effectiveness of such schemes cannot be achieved without recourse to additional preferential techniques. To the extent that developing countries protect domestically produced goods by means of import prohibitions, quantitative restrictions, exchange controls or other non-tariff barriers, action on tariffs alone will not produce the desired results. A preferential approach to the most restrictive of the non-tariff barriers is likely to be the only effective instrument.

6. The experience of integration groupings shows that such possibilities for action do exist. While some of those groupings succeed in eliminating quantitative restrictions in intra-regional trade, others apply more gradual measures in this direction, such as the establishment of minimum quotas for prohibited products in favour of other participating countries, the quotas being progressively enlarged in line with increasing consumption; the establishment of compensatory quotas for specified products within the same industry; the opening of preferential quotas for certain products of special interest to a group of partner countries; and special exchange allocations for specified import categories from other developing countries in the absence of wider payments arrangements.

(c) *Multilateral techniques for negotiations on tariff and non-tariff barriers*

7. For negotiations on a wider regional or interregional level, bilateral negotiating techniques on a product-by-product basis have predominated so far. These techniques have, however, largely failed to provide the results initially expected of them with respect to numbers and importance and the extent of the concessions secured. The same holds true for the comparability of individual country contributions. When a total assessment of the various bilateral negotiating results has been arrived at, the over-all contributions of individual participating countries have shown wide differences, independently of their relative stages of over-all or industrial development or of any other economic criteria. Bilateral negotiations on specific products become more and more cumbersome as the number of participants in a single regional or global scheme increases.

8. Negotiations on a wide geographical basis could be simplified by putting them on a multilateral negotiating level, and by using generally applicable formulae with respect to the number of concessions, the extent of tariff cuts, etc. These across-the-board measures could be modified according to different product groups (all manufactures, products of certain industries, a number of export products of the partner countries, etc.). The commitments and concessions would necessarily vary according to the levels of development of the various participating countries. Such negotiations need not necessarily be intended to reach the stage of complete trade liberalization in all cases. Modest but effective intermediate negotiating targets to be attained over a limited period of time could be more conducive to success, especially at the regional or interregional level.

9. The multilateralization of tariff and non-tariff preferences could be facilitated by complementary provisions such as adequate safeguard provisions in favour of domestic industries, payments agreements, and mutual payments support in cases of serious balance-of-payments difficulties. Multilateralization of preferences, however, would also imply some relaxation of the principle of reciprocity and require instead a substantially increased confidence in a spirit of solidarity, in the review and adjustment mechanism and, generally, in the dynamics of co-operation.

(d) *The role of active trade measures within preference schemes*

10. It may be difficult to achieve well-balanced economic results with preference schemes that rely merely upon preferences with respect to tariffs and quota restrictions. First, the removal of trade barriers, even on a preferential basis, is only a passive instrument whose effectiveness depends on many other factors and structural obstacles and which may not necessarily induce any significant increase in trade. Secondly, certain developing countries apply relatively liberal import régimes which would not enable them to participate effectively in a simple trade liberalization scheme. Thirdly, special problems apply to trade in essential commodities, which also call for the exploration of new possibilities apart from the trade liberalization approach.

11. The feasibility of the following techniques for achieving a suitable equilibrium might therefore deserve further consideration by certain participating countries with the necessary facilities at their disposal:

(*a*) Multilateral commitments for purchases and supplies of specific commodities under long-term contracts and price clauses;

(*b*) The utilization of existing State-trading mechanisms for promoting imports from partner countries;

(*c*) The introduction of preferential margins in favour of developing country suppliers in tenders issued by public sector authorities.

(e) *The application of preferences to co-operation in production*

12. The progressive building-up of comprehensive industrial and agricultural production structures in developing countries will in general result in a parallel increase in the potential supply of products to other developing countries. Trade preferences would be particularly effective in promoting trade between developing countries in such industrial products if the preferences were directly related to the increasing number of joint ventures among developing countries. The finished products or raw materials and intermediate inputs used in the manufacturing process by joint ventures should be increasingly incorporated in the preferential arrangements at all levels. Such arrangements may also incorporate special provisions allowing preferences concerning products included in industrial co-operation agreements among some partner countries to be extended exclusively to the participating countries. Finally, special preferential provisions may form an important component of specific industrial co-operation agreements or industrial integration régimes providing a framework for co-ordinated industrial planning on a sectoral or intersectoral basis within integration groupings or regional co-operation schemes.

(f) *The extension of the principle of preferential treatment to services related to trade*

13. The extension of the principle of preferences to services such as shipping, banking, insurance and reinsurance would break new ground in the context of wider economic co-operation schemes. Even experience within subregional integration groupings is scarce. Although several instances of general co-operation in these areas can be cited (e.g. joint training facilities and the adoption of pooling techniques), there are very few specific examples relating to such matters as preferential rates, fees and cargo reservation in connexion with shipping and ports, or the effective application of preferential rights of establishment of shipping, tourism, banking and insurance enterprises in other developing countries.

### 3. *Principles governing preferential negotiations among developing countries*

(a) *General negotiating principles*

14. Current preference schemes at the regional and interregional levels resulted from bilateral negotiations

aimed at securing mutual benefits, taking into account the partner countries' present and future development, their financial and trade needs, and past trade developments. Such aims do not progress to any significant extent beyond the traditional formulae of reciprocity which have served as guidelines for negotiations among developed countries and between developed and developing countries in the past. Integration groupings have in several instances been able to evolve beyond the formulation of requests for reciprocal concessions in various fields. In the spirit of the New International Economic Order, participation and solidarity should play a greater role, alongside the traditional negotiating principles, in schemes at all levels.

(b) *Special provisions in favour of relatively less advanced partner countries*

15. Preferential schemes need to incorporate special provisions in favour of relatively less advanced partner countries. This notion is, however, of a relative nature and the group of countries concerned may vary from scheme to scheme. Some special provisions of this type are already embodied in existing schemes at all levels but further improvements still appear to be required. Special treatment with respect to trade preferences would imply not only the extension of preferences already existing to relatively less advanced partner countries without reciprocity, but also substantial preferences with respect to products of direct export interest to them. Special treatment needs also to be applied with respect to commitments requested from relatively less advanced partner countries; full account need to be taken of one-sided situations in which some developing countries may be considerably more likely than others to be able to utilize available preferential advantages, for reasons dictated by production patterns and foreign trade instruments. Special concessions granted in favour of less advanced partners should therefore not be compensated by any considerable concessions on their part. Special treatment in favour of the relatively less advanced countries might also go beyond tariff and quota restriction preferences, and include special purchase and supply commitments of a long-term nature or other complementary import promotion measures in favour of their most important export products.

16. Consequently, advanced developing countries should consider granting preferences unilaterally in favour of less advanced partner countries in respect of their main export products. Advanced developing countries may argue that they are also still in the process of development, but these countries often enjoy substantial trade surpluses vis-à-vis their relatively less advanced partners and have a substantially larger capacity to utilize effectively mutual preferential advantages of the type outlined in the present report; they also benefit from the international application of non-reciprocity by developed countries in their schemes of generalized preferences far more than other developing countries do. As a counterpart, the least developed countries also should be committed to participate by means of some contribution to the scheme. This could consist in the extension of most-favoured-nation treatment, or the promise not to raise, as far as possible, any new barriers affecting imports from other participating countries. It should also be recognized, in principle, that a second stage in the extension of preferences should follow, in accordance with the development of the relatively less advanced country, as trade cannot be considered as a flow in one direction only. Such multilateral schemes could contain effective instruments for minimizing any potential risks for participating countries. The formulation of such new concepts with regard to participation, mutual solidarity and the unilateral extension of concrete advantages to relatively less advanced countries could become a major new feature in multilateral preference schemes among developing countries.

17. Experience in various subregional groupings has shown, however, that it is very difficult to assure a balance of advantages and costs in the case of countries with very different levels of development. Special measures in the field of trade alone may not be sufficient to achieve the aim of an adequate participation of the relatively less advanced countries in the advantages of such schemes. Special trade concessions might need to be linked with more active production and finance measures in preference schemes of all types.

(c) *The question of the automatic multilateralization of interregional and regional preferences in favour of other developing countries*

18. In the long run, the extension of all interregional preferences to all other developing countries would appear to be economically the most desirable objective. The same would apply to regional preferences granted to other developing countries in the same economic region.

19. It appears unlikely, however, that such objectives can be attained in the near future, as long as many relatively advanced developing countries are not participants in regional and interregional schemes. In the first place, the unilateral extension of preferential advantages to such countries would have major economic repercussions for participants. Secondly, the active participation of new countries in regional and interregional schemes would not be encouraged if they could enjoy unilateral advantages without making any contribution. Multilateralization would appear to presuppose a wide participation among developing countries. Wide participation in turn requires that the coverage and the principles governing the preferential schemes should be such as to offer prospects of effective advantages to all potential participants.

## B. Existing preferential arrangements

20. So far, preferential trading arrangements have proved successful mainly within a number of subregional integration schemes, though the action of several of them still needs to be strengthened substantially with regard to trade and other forms of co-operation. The application of trade preferences at the regional and interregional levels is, however, in all cases still at an early stage and limited in scope.

21. At present, the major operational interregional scheme is the GATT Protocol relating to Trade Negotiations among Developing Countries, which entered into force in February 1973, under which 16 developing countries exchanged mutual tariff preferences, mainly relating to manufactured products.[2] The original intention to attract the participation of a significant number of developing countries of all geographical areas has not been fulfilled so far. Towards the end of 1973, the countries parties to the arrangement invited all other developing countries to explore together with them the possibilities for a further expansion of trade among developing countries and for eventual accession to the Protocol. Several countries have expressed such interest, but few have taken practical steps towards eventual participation. The countries participating in that scheme envisage launching a new round of trade negotiations to widen the product coverage and to extend existing concessions and the geographical coverage, in order to render the arrangement more effective.

22. The Tripartite Agreement concluded in 1968 between India, the United Arab Republic and Yugoslavia[3] covers linear tariff preferences for a common list of products, mainly industrial items. These countries have also agreed to incorporate their trilateral list progressively in the wider arrangement of the GATT Protocol referred to above, to which they are all parties.

23. On a regional scale, a first Agreement on Trade Negotiations among Developing Member Countries of the Economic and Social Commission for Asia and the Pacific (Bangkok Agreement) was signed on 31 July 1975 by seven ESCAP countries.[4] The Agreement forms part of a wider concept under which developing ESCAP countries envisage eventually extending their economic co-operation to other fields, such as commodities and industry. The Bangkok Agreement, which is subject to ratification, embodies a programme of trade liberalization, as well as additional objectives, with the purpose of increasing trade among the member countries, and a series of intensive negotiations is envisaged for the near future. The initial national lists of concessions incorporated in the Bangkok Agreement cover bilaterally negotiated tariff preferences of limited extent on selected products (mainly manufactures).

24. Though normally considered as a subregional agreement with wider-reaching integration objectives, the Latin American Free Trade Association also has some features characteristic of a regional agreement, aiming at broad co-operation within the Latin American region.

25. Studies for new schemes of preferential co-operation have also been started in the context of a regional programme in Africa and of the Action Programme for Economic Co-operation among Non-Aligned and Other Developing Countries, adopted by the Conference of Foreign Ministers of Non-Aligned Countries, held at Georgetown, Guyana, from 8 to 12 August 1972.

### C. Interrelationship of interregional, regional and subregional preferential schemes

26. Taking into account the different moves already made in the past by developing countries towards establishing preferential and wider-reaching co-operation and integration schemes among themselves at the subregional and regional levels, it would appear likely that a comprehensive third-world preference system would consist of three closely interrelated tiers. One tier would be formed by existing and emerging subregional co-operation and integration groupings. Another would involve the formation of regional schemes covering the main geographical areas, which would not only ensure an outward-oriented development of the integration groupings but would also permit their harmonious co-operation with non-member countries of the same region. Superimposed on these two tiers a single third-world scheme could be applied.

27. Such a concept would necessarily imply that individual developing countries would have the option to participate in several preference schemes at various geographical levels. This raises the question in principle of how the various schemes could be interrelated and what kind of provisions would be required in the schemes at the various levels to achieve their harmonious combination.

28. As subregional integration schemes offer the largest scope for co-operation, and as several of them have made substantial progress in this direction in the past, it is likely that the scope and effectiveness of preferential arrangements will show a tendency to increase from the interregional level towards the regional and subregional levels. Preferences included in the interregional schemes should logically be included in regional preferential or co-operation schemes, and those preferences should also be incorporated in subregional preference or integration schemes. Preferences covering the whole of the third world and regional preferences will be automatically incorporated within those integration groupings forming a free-trade area or Customs union.

29. Adequate provisions need to be included in the various preference schemes to permit the mutual extension of preferences at the various geographical levels. Integration groupings need to obtain full capacity to participate in regional and interregional schemes as single units. This appears necessary in order to enable member countries to take fully into account their specific co-operation objectives at the subregional level, and it seems to be a prerequisite when such groupings apply a common external tariff or other common trade policy measures.

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[2] The original 16 member countries are Brazil, Chile, Mexico, Peru, Uruguay, India, the Republic of Korea, Pakistan, the Philippines, Egypt, Greece, Israel, Spain, Tunisia, Turkey and Yugoslavia. (The Protocol is still subject to ratification by Peru and the Philippines.) The extension of this Protocol to Paraguay and Bangladesh without negotiation with the participating countries is at present (November 1975) under consideration, and exploratory talks are being held with some other developing ocuntries. For the text, see GATT, *Basic Instruments and Selected Documents, Eighteenth Supplement* (Sales No. GATT/1972-1), p. 11.

[3] Trade Expansion and Economic Co-operation Agreement, *ibid., Sixteenth Supplement* (Sales No. GATT/1969-3), p. 17.

[4] Bangladesh, India, Laos, Philippines, Republic of Korea, Sri Lanka and Thailand. The text of the Agreement is reproduced in document TD/B/609/Add.1 (vol. V), p. 177.

30. Subregional integration groupings in turn need to apply appropriate co-ordination instruments and mechanisms, to enable their member countries to participate actively in schemes with a wider geographical coverage. For groupings with common external tariffs, this would imply opening up the possibility of introducing into their common external tariff schedules preferential rates in favour of other developing countries.

31. In general, the current provisions of certain preferential trade agreements aimed at the preservation of the margins of preferences granted within a specific context need to be reviewed, in order to permit the flexible extension of such preferences to other schemes in which other individual developing countries may wish to participate.

32. In addition, the multiple participation of individual developing countries in various preference schemes could create a number of practical and administrative problems. Those resulting from a possible parallel participation in preference schemes of the same type and with the same geographical coverage would be solved by a clear definition of the structure and interrelationships of preferential arrangements among developing countries at the global level. Other difficulties could arise, in the case of parallel negotiations on preference arrangements, with regard to staffing and the cost of such negotiations, and with regard to the administration of multi-column tariffs. Such problems may be important for certain countries and they might well be solved by judicious timing, assistance in the adequate preparation of such negotiations, etc. Such problems should, however, in no case form insuperable obstacles to participation to the fullest extent possible in a third-world system of preferences.

### D. Mechanisms for implementation

#### 1. *Multilateral mechanisms*

33. In order to define a comprehensive global system of preferences, it would be necessary, in the first place, to conduct basic negotiations at the third-world level to determine the main elements of the system, its structure and its interrelationships. The question remains how best to implement such a system.

34. One approach might consist in launching with the widest possible participation, a new round of detailed negotiations among all developing countries for the establishment, in a single process, of new regional, interregional and, where required, subregional schemes, in accordance with the new negotiating principles and guidelines and staged on the basis of a pre-established negotiating calendar.

35. An alternative and more pragmatic approach would consist in building the new system step by step on the basis of existing or emerging subregional, regional and interregional schemes, including such arrangements as the GATT Protocol relating to Trade Negotiations among Developing Countries. In preference to an attempt to build the third-world preference system all at once, the new features of such a system could be integrated in such arrangements in a progressive manner. This approach would be less ambitious and would leave scope for adjusting the various initiatives for creating new schemes, where required, or for extending the geographical coverage of existing schemes, to meet the specific situations of the developing countries concerned. It would also leave scope for exploring the possibilities of establishing links between existing preference schemes and of combining such schemes with payments arrangements and other forms of economic co-operation in production, finance, transport and other services. Thus, preferential arrangements could gradually evolve from the isolated application of trade preferences towards a more comprehensive and meaningful economic co-operation.

36. This pragmatic step-by-step approach towards the establishment of the new third-world system would also demand that developing countries should, as a second measure, take the initiative towards negotiating new schemes where required, and improving upon existing ones, at the subregional, regional and interregional levels alike. Such detailed negotiating rounds, which could proceed on parallel and decentralized lines, would be greatly facilitated by a prior agreement among all developing countries on the basic principles and guidelines for such preferential negotiations, to be arrived at during the first round of comprehensive basic negotiations, as indicated above.

37. Whatever the choice of the developing countries might be, appropriate institutional arrangements and technical assistance support would assist further progress towards the establishment of a novel comprehensive system of preferences in the third world. So far, technical assistance has been almost exclusively concentrated on subregional and regional schemes, whereas negotiations at the interregional level have only marginally benefited from such support, which has not included studies in the negotiating countries themselves. The possibility of using technical assistance as a means of widening and reinforcing an interregional preferential scheme should be considered.

38. Developing countries should also aim, in the context of the multilateral trade negotiations, at adjusting and updating the relevant provisions of the existing system for the conduct of international trade, so that preferential arrangements and economic co-operation among developing countries are accepted as a standard feature rather than as an exception, as has been the case in the past. As has already been acknowledged within various international forums, preferential arrangements constitute an opportunity for the developing countries to improve their own economic situation by their own efforts, fully in keeping with the spirit of the establishment of a new international economic order.

#### 2. *Unilateral mechanisms*

39. Certain developing countries have witnessed in recent years a substantial increase in their financial resources, and hence in their import capacity. Given the development needs of these countries, most of this in-

creased import capacity has resulted in an almost automatic increase in imports from developed countries in the form of industrial equipment and intermediate inputs. When liberalizing their tariff and import régimes on a world-wide basis, such countries might consider taking unilateral action to facilitate the entry of products exported mainly by other developing countries, quite apart from any consideration of their eventual participation in regional or interregional preference schemes. Active import promotion measures of the kind mentioned above might also assist in ensuring that at least a modest share of the increased import capacity benefited other developing countries.

CHAPTER II

## *Economic co-operation among developing countries in the field of trade: measures of trade promotion*

### A. Import co-operation

#### 1. *Introduction*

40. Import co-operation among developing countries has so far been a neglected aspect of international development strategy, although substantial opportunities seem to be available for fruitful collaboration in this field. By contrast, export co-operation among developing countries is a well-recognized aspect of international development strategy and is currently receiving increasing attention.

41. The need for import co-operation derives, on the one hand, from imbalances in bargaining power between the developing and developed countries and, on the other, from the fragmentation and small size of demand in developing countries. The bulk of the imports of about 130 developing countries is heavily concentrated on about six industrialized market-economy countries, with the result that developing countries, acting separately, have little or no power to influence the terms and conditions under which they purchase their imports.

#### 2. *Possible benefits of import co-operation*

(a) *Terms of trade*

42. One of the obvious benefits of import co-operation is its possible contribution to an improvement in the developing countries' net barter terms of trade. In the two decades preceding recent developments in the world economy, the developing countries, and particularly the non-petroleum-exporting countries, experienced a substantial deterioration in their terms of trade. Attention is generally focused on the decline or stagnation of export prices and on policies for raising these prices. It is none the less a fact that the rise in import prices has contributed substantially to the trend in the terms of trade and, for certain periods, has contributed in a much greater measure to the deterioration in the terms of trade than has the stagnation in export prices. It would also be true to say that very little has been done collectively to modify import prices.

43. Although the export prices of all non-petroleum-exporting developing countries increased by 32.4 per cent from 1960 to 1972, the increase in import prices (27.9 per cent) almost entirely offset this gain. If the period 1954-1956 is taken as the base, the increase in export prices (11 per cent) is offset by an increase in import prices three times as large (32 per cent). The relatively strong impact of import price increases on the trend of the terms of trade similarly affected those developing countries whose exports of manufactured goods increase rapidly.

44. There are substantial reasons for believing that, in principle, import co-operation could help to modify the trend towards increases in import prices in developing countries. In the first place, the greater uniformity that would result from collective bargaining by developing countries in their trading relations with private corporations in developed market-economy countries, as well as with the foreign trade organizations of the socialist countries of Eastern Europe, should strengthen their ability to secure better terms and conditions for their purchases. Secondly, placing orders in bulk with selected suppliers for specified periods of time can be expected to make for some economies of scale. Thirdly, dealing in large quantities on behalf of several users makes for prompter deliveries and makes it easier to find the cheapest possible sources of supply. It is often not possible for small-scale enterprises to carry out and follow up the necessary international market research. Fourthly, import co-operation of this kind is an inducement to exploit the economies of standardization through convenient adjustments to product specifications.

(b) *Shipping and marine cargo insurance*

45. The UNCTAD secretariat calculated that in 1970 the cost of sea transport represented 10.8 per cent of the f.o.b. value of imports.[5] Assuming that this figure applied to the developing countries' imports originating from the developed market-economy countries in 1973, the freight bill would have amounted to $8.0 billion. Freight charges for those countries' imports from all sources in the same year would have been $12.3 billion. Since developing countries rely extensively on liners for the major part of their imports other than oil, the calculated figure of freight costs in 1973 may be an underestimate.

46. Considerable savings and other benefits to the developing countries can be obtained if homogeneous cargoes moving in large quantities can be bulked and if mixed liner cargoes can be pooled. The bulking of cargoes can offer two sources of economy. First, the cargoes can travel as full shiploads on chartered ships instead of as parcels on liners. Secondly, even when full loads cannot be obtained, liner operators will normally grant freight reductions for large consignments. The bulking of cargoes on a multinational basis offers, in principle, further opportunities for cost economies to the developing countries, since it increases the possibilities of obtaining full shiploads. In practice, however, these possibilities have to be weighed

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[5] See *Review of Maritime Transport, 1972-1973* (United Nations publication, Sales No. E.75.II.D.3), paras. 212-224.

against limitations imposed by inland transport and port services in many parts of the developing world.

47. The multinational bulking and pooling of cargoes would also give rise to substantial economies in the cost of marine cargo insurance. Although it has not been possible to quantify the size of the possible savings, they may be expected to arise principally from two sources. First, and most important, cargo pooling would facilitate the growth and greater participation of developing countries' institutions in cargo insurance. Secondly, the pooling of cargoes and the rationalization of sailings would reduce the cost and improve the terms of the insurance provided by institutions in the developed countries.

(c) *Market organization and international trade negotiations*

48. The great majority of developing countries are small, even by the standards of small industrialized countries. Furthermore, a great number of the industrialized market-economy countries of the world, those grouped in the European Economic Community, adopt a joint approach to negotiations with third countries, with a view to the establishment of trade agreements or association relationships of various kinds.

49. Similarly, developing countries are faced with oligopolistic situations in negotiating with the transnational corporations, particularly in regard to capital equipment and technology. A major advantage of multinational import purchasing arrangements from the point of view of the developing countries could be the injection of a much-needed element of countervailing power vis-à-vis the entrenched market position of large transnational corporations, and a consequent reduction of their preponderance.

(d) *Integrated production planning and rationalization*

50. Import co-operation may provide the stimulus to integrated development and joint planning. First, the pooling of imports should at once demonstrate, in visible terms, the economies to be derived from such co-operation and the possible savings in convertible currencies. Secondly, import pooling would encourage product standardization and rationalization of the patterns of production, particularly in the case of machinery, transport equipment and other capital goods, and of some consumer goods as well.

### 3. *Possible forms of multinational import co-operation*

51. Centralized importation systems fall under the two broad categories of direct and indirect indent systems.

(a) *Direct indent systems*

52. Under direct indent systems, specified goods are imported solely by State agencies for their own account. The agencies are responsible for securing the most advantageous terms and conditions of supply, concluding appropriate contracts, arranging payment and lodging insurance claims, etc. These systems may deal with a limited number of commodities or with virtually the entire range of imports. For reasons of efficiency, it is usually found convenient to decentralize import operations into separate statutory corporations or organizations, each responsible for the import of different categories of goods. These categories vary according to the needs and structure of the economy concerned. In one large developing country, for example, there are separate autonomous corporations or separate divisions of the State trading corporation for such commodities as minerals and metals (including fertilizers), chemicals, drugs and pharmaceuticals, industrial products, oil and fats, and motor cars. A notable feature of the arrangements in this case is the existence of an Industrial Raw Material Assistance Centre. This is an organization with special responsibility for assisting small-scale industries. It pools their raw material and equipment needs, purchases these requirements abroad on the most advantageous terms, and also offers "off-shelf" delivery.

(b) *Indirect indent systems*

53. Indirect indent systems offer a greater degree of flexibility between the requirements of centralized importation and those of private trading, although they may not maximize the economies that a direct system of import pooling can achieve. Under the indirect system, State trading agencies do not purchase imports for their own account. Commodities are ordered by these agencies, at a commission, on behalf of distributors who are themselves responsible for all aspects of the transaction. These arrangements offer, none the less, some possibilities of collating, combining and standardizing orders and rationalizing the sources of supply and price and quality differences in conformity with national objectives, but with a minimum of interference with private sector operations.

### 4. *Possible mechanisms for multinational import co-operation*

(a) *Joint information exchange service*

54. Individual developing countries, particularly the small ones which constitute the greater part of the developing world, would find it excessively costly to maintain an efficient and sufficiently diversified market intelligence service supplying information on alternative sources and terms of imports. To a limited extent, some countries' external diplomatic representation performs such functions, but for the most part there appears to be insufficient specialization and continuity. Such services as do exist are confined to particular markets, without any regard to other sources of supply. In certain cases, some developing countries rely on information supplied by market intelligence firms or other institutions in the developed countries themselves. This, too, lacks international co-ordination and may not always be best suited to the needs of developing countries. Consequently, significant differences in c.i.f. prices for identical or similar products may be found, within individual countries, and even more between contiguous developing countries, even for homogeneous food products. This situation is very much in contrast to that applying to the bulk of the exports of

developing countries, for which well-informed and organized international commodity markets exist, generally located in the developed countries themselves. At the simplest level, therefore, the exchange of information on a continuous basis may contribute to improving the terms on which some countries import certain commodities. Moreover, such exchanges may, indirectly, have the effect of standardizing some import specifications by revealing discrepancies based on fictitious product differentiation, and of concentrating import orders on relatively more efficient sources of supply. The very knowledge that such exchanges are taking place may help to eliminate some of the excessive profits often associated with imperfectly competitive markets.

(b) *Joint public sector purchasing*

55. Even in developing countries with predominantly market-economy systems, a substantial public sector exists. This could provide, initially, a solid base for the implementation of a multinational importation system, without introducing the complications of the private sector.

56. Despite the size of the public sector, it is often found, even at the national level, that there is considerable room for co-ordinating and standardizing government purchases from abroad. Indeed, in many countries, the system of public sector purchasing of imports is itself not centralized; frequently, orders are not consolidated and are despatched haphazardly and at intervals not conducive to efficiency.

(c) *Co-ordination of national long-term development plans*

57. National development plans, where they exist, could form the basis for a degree of multinational co-operation in the purchase of imports. These plans should make it possible to estimate, to some extent, not only the planned capital and recurrent import requirements of the public sector but, less accurately, private consumption and capital requirements over given periods. The planning periods of the co-operating countries may not coincide and these countries may consider initially the possibilities of effecting some realignment in this respect. Otherwise, the results of a simulated alignment of national plans should provide some rough guidelines as to long-term import requirements.

58. Such a co-ordination of national long-term development plans might form the basis for multinational long-term import plans, showing separately the shares of the public and private sectors and, within the long-term plans, the multinational annual import plans. Although the estimates would necessarily be rough, there should be distinct advantages in such a development. For example, the areas and even products of common interest would be highlighted and, likewise, the possibilities for adjustment, so as to secure greater standardization. Whatever the margin of error entailed in the projection, minimum estimates, given a range of possibilities, would provide a useful and reliable working basis for joint importation. Furthermore, such an approach would have the advantage of illustrating the possibilities and associated advantages of long-term contracts, stocking, and even forward transactions for some consumer goods and industrial materials. It would also provide, in the case of installations and equipment, the flexibility needed for time-consuming negotiations, if full advantage was to be taken of joint import arrangements in this product category.

59. A system of public sector import purchasing on a multinational basis would therefore have the double effect of rationalizing national systems and securing whatever economies of scale and advantages in negotiation are possible. The existence of State trading corporations in some countries presents a convenient and ready-made institutional framework for multinational import co-operation in the public sector.

(d) *Joint invitation to tender*

60. The demand for machinery and equipment in developing market-economy countries is substantial. Their imports in this category from the developed market-economy countries amounted to $107.8 billion over the period 1969 to 1972.

61. In developing countries, the execution of infrastructure and other construction projects, including the supply of plant, equipment and technology, is often, though not always, subject to international bidding. Frequently, the projects to be carried out and the plants to be erected are of a similar nature and/or involve a similar kind of technology, and therefore offer considerable opportunities for standardization and the use of a system of joint invitation to tender.

(e) *Single-commodity bulk purchase agreements*

62. Single-commodity bulk purchase agreements are designed to secure the best available terms in the purchase of imports through effective competition and the economies associated with large-scale, long-term contracts.

63. The success of such a collective approach would hinge on the value of the trade and the nature of the product, which would have to be subject to homogeneous specification. In both respects, there are undoubtedly good possibilities, given the political will to co-operate. The products which may be suitable for such group agreements fall in both the consumer goods[6] and the industrial materials[7] category, and even to some extent in the capital goods category.[8]

### B. Export co-operation

64. This section of the present report is devoted to the outline of possible measures of co-operation among devel-

[6] Wheat, wheat flour, rice, maize, meat (fresh and preserved), preserved milk, butter, cheese, animal feeds, vaccines and serums, penicillin, sulphur-based drugs, vitamins.

[7] Steel, zinc, lead, sheet glass, fertilizers, vinyl chloride, cellulose sheets, nylon moulding powder, polypropylene, urea, caustic soda, DDT, newsprint, wrapping paper, nylon yarn, polyester fibre, synthetic rubber, wood pulp.

[8] Plant and equipment for textiles, footwear, cement, fertilizers, electricity generation.

oping countries intended to increase the earnings from their exports, other than those designed to raise and stabilize primary commodity prices and those aimed at liberalizing access to the developed countries' markets for the manufactured goods of developing countries, which are dealt with in other documents.

65. Total exports (f.o.b.) of the developing market-economy countries to the developed market-economy countries amounted to $81.4 billion in 1973. Excluding the major oil-exporting developing countries, the developing countries have experienced a substantial decline in their share of the world export market. In 1960, this share was 14.2 per cent; in 1972, it was 10.4 per cent, and in 1973, despite the substantial improvement in commodity prices compared with the previous year, it was still only 11.5 per cent.[9] Table 1 below shows a breakdown of the structure of this trade. Mineral fuels alone accounted for 34.9 per cent and food, beverages and tobacco for 15 per cent of total exports. Primary materials as a whole accounted for 70.5 per cent[10] of the total exports of the developing market-economy countries.

TABLE 1

**Structure of exports of developing market-economy countries to developed market-economy countries, 1973**

| *Commodity class* | *Percentage* |
|---|---|
| Food, beverages and tobacco | 15.00 |
| Cereals | 0.76 |
| Crude materials excluding fuels, oils and fats | 11.98 |
| Oilseeds, nuts and kernels | 1.00 |
| Textile fibres | 1.79 |
| Crude fertilizers | 0.82 |
| Metalliferous ores | 3.25 |
| Animal and vegetable oils and fats | 1.03 |
| Mineral fuels | 34.89 |
| Chemicals | 0.74 |
| Machinery and transport equipment | 2.89 |
| Passenger road vehicles and parts | 0.10 |
| Other manufactured goods | 15.55 |
| Textile yarn and fabrics | 2.39 |
| Iron and steel | 0.50 |
| Non-ferrous metals | 3.66 |
| Other manufactured metal products | 0.19 |
| Clothing | 3.38 |

*Source:* United Nations, *Monthly Bulletin of Statistics*, July 1975.

66. Not only is a substantial portion of this trade in primary materials controlled through the operations of vertically integrated transnational corporations, but the transfer pricing employed is often such that returns to the producing countries are equal only to a small fraction of the final selling price of the product (in some cases, even when little or no intermediate fabrication takes place, no more than 10-15 per cent).

[9] See *Review of international trade and development, 1973* (United Nations publication, Sales No. E.74.II.D.14), part one, chap. II.

[10] This includes SITC 0 and 1, 041-045, 2 and 4, 22, 26, 27, 28, 4 and 3.

### 1. *Possible measures of export co-operation*

(a) *Co-ordination of export policies*

67. Considerable advantages may be secured by developing countries in co-ordinating their export policies, even without adopting common bargaining positions. There is *prima facie* evidence that competition among large numbers of developing exporting countries is effectively exploited by monopsonistic importing entities in the developed countries.

68. Co-ordination of export policy could beneficially be applied to transfer pricing where transnational corporations control the integrated processes of production, marketing and final transformation. For example, the guidelines or principles on which the price of a primary commodity is determined in such circumstances can be a fruitful area for agreement among co-operating developing countries. Some elements of this idea are apparent in recent developments in the bauxite and alumina trade.

69. Similarly, such co-ordination may be applicable to export taxes. Co-ordination in this field could be applied not only to the rates of taxation but also to the fiscal instruments to be employed. An application of this idea is apparent in the decision of certain banana-producing countries to impose a tax on banana exports.

70. Co-ordination of policies may also be advantageous in the promotion of exports to established markets and in the development of new markets, including those of the developing countries themselves. The need for such co-ordination derives from the fact that, in many instances, various developing countries are interested in expanding or developing the same market for the same product, including manufactured goods. Individual unco-ordinated promotional campaigns and other marketing arrangements may, in many cases, not only be less effective than a co-ordinated approach but also a good deal more costly. Similarly, a co-ordinated approach to export credit insurance would, by providing a broader basis for this activity, benefit co-operating developing countries in terms of its adequacy, their participation in it and the reduced cost of the service.

(b) *Common bargaining*

71. The adoption of common positions by developing countries is likely to improve substantially their bargaining strength in negotiations both with governments of developed countries and with transnational corporations. The result of the common positions adopted by the African-Caribbean-Pacific group of countries in their negotiations with the European Economic Community on sugar is a practical demonstration of the advantage of such an approach. This increased bargaining strength could not only be applied with regard to prices but could also be exercised effectively to secure more liberal conditions of access to markets and the suppression of restrictive business practices.

72. Moreover, since transnational corporations hold a dominant position in the production and international marketing and distribution network, the adoption of

common bargaining positions would provide developing countries with some countervailing force which could be used in their efforts to secure a more equitable distribution of the benefits derived from their export trade.

(c) *Direct marketing and distribution*

73. Frequently, developing countries are dependent on the assistance of corporations in the developed countries for the marketing, shipping and distribution of their export commodities, even where their export production and trade are not directly controlled by the operations of vertically integrated transnational corporations. The elimination of such intermediation could be a source of substantial gains for developing countries. It would be particularly advantageous in the case of those commodities for which the returns to the producing countries are a small fraction of the final selling price, even though the commodity is consumed in its primary form or after minimum processing. Direct marketing and distribution in the developed market-economy countries, as well as in centrally-planned economies, would also be an important incentive for the further development of small export-oriented firms in the developing countries, especially those producing manufactured goods.

74. Direct marketing and distribution could be more efficiently organized through the establishment of multinational marketing corporations. In cases where a small number of buyers deal with several developing countries competing as sellers, a joint approach may be the only way by which developing countries can effectively break into direct marketing and distribution operations. In other cases, the cost of entering this area may be prohibitive for any individual country, as far as any given commodity is concerned.

75. Shipping arrangements would, in many instances, especially for the smaller, geographically contiguous producing countries, entail joint approaches. It would be mainly through the pooling of cargoes and the rationalization of sailings, either through ship ownership or chartering, that such countries would be able to participate in the returns from the shipping operation. In this manner, a direct link would be established with joint marketing and distribution functions.

76. One aspect of direct marketing which deserves closer attention is the possibility of establishing commodity markets or exchanges operated in developing countries and controlled by them, in order to supplement or replace those located in and controlled by developed countries, which were established in circumstances different from those prevailing at the present time. The institution of such a change in the international marketing of primary commodities presupposes a closer degree of collaboration among developing countries with regard to their exports.

(d) *Research and development*

77. There are areas in which developing countries have a common interest. Many of these countries, including some which are regionally grouped, produce a limited but identical range of primary materials in which a co-operative approach to research and development would be beneficial to all the collaborating countries. The advantages of such an approach would include financial economies of scale. Export products have often benefited from research promoted by institutions in the developed countries and by transnational corporations. A good deal of this research has been directed towards improving the productivity of various tropical crops or of the techniques employed in the production of certain primary industrial materials. The gains from these increases in productivity have not always been reaped by the developing countries to the extent expected. In certain cases, given the structure of ownership and production, virtually no benefits have accrued to developing countries as a result of productivity increases and, in other cases, benefits taking the form of increased incomes have been offset by the creation of more unemployment. Research has, however, been less successful in improving the productivity of commodities directly competitive with those produced by developed countries, in the further development of tropical primary products, in the discovery of new end-uses for these products, in the utilization of by-products and in the discovery of economic uses for unutilized substances.

### 2. *The role of producers' associations in the promotion of export co-operation*

78. The possible measures of co-operation outlined above could be promoted through a variety of *ad hoc* institutional arrangements – commodity consultative and negotiating bodies, information exchange services, multinational marketing and shipping enterprises, commodity exchanges, multinational processing enterprises, joint research centres, and so on. It would, however, seem desirable that, as far as possible, these various efforts should be co-ordinated and promoted through producers' associations, even if some of these co-operation ventures are established and operated separately. This involvement in a wider range of co-operation measures would, of course, be additional to whatever action such associations might decide on with respect to prices and would confirm the fact that for different commodities different kinds and combinations of support action with differing degrees of emphasis may be needed.

79. Apart from the political will required to ensure effective co-operation in this field, economic conditions and particular characteristics of international markets for primary materials favour the establishment of producer associations for many commodities. For example, in 20 out of 30 primary commodities, the developing countries' share in world export is over 50 per cent[11] and in 22 of them it is over 40 per cent.[12] Moreover, in each case, less than ten

[11] Bauxite and concentrates, copper and alloys, manganese ores and concentrates, tin ores and concentrates, tin and alloys, cocoa beans, coffee, tea, cotton, jute, sisal, rubber (natural), rice, sugar, bananas, coconut oil, copra cake and meal, groundnut cake and meal, palm oil, copra.

[12] The 20 mentioned above, plus alumina and its hydrates, iron ore and its concentrates.

developing countries account for a dominant share (over 60 per cent) of total exports by developing countries.

80. Producers' associations or other *ad hoc* or informal bodies consisting of producers alone or producers and consumers already exist for a few commodities. The position with regard to multilateral institutional arrangements for selected primary commodities is shown in table 2 below. No producer arrangements exist among developing countries in a wide range of primary commodities. Commodities for which association arrangements might be considered include tea, jute, meat, hides and skins, tin, lead, silver, zinc, manganese, phosphates, cobalt, chromite and tropical woods.

81. In addition, in the case of other commodities, the existing producer arrangements do not include all producing developing countries; often they are confined to co-operation on a regional basis. The desirability of their extension or of adherence to them by non-participating countries may likewise be considered. These commodities include cocoa, coffee, rubber, sisal, sugar, copper, petroleum, bananas, coconuts, pepper and rice.

82. The effectiveness of unified action in international markets could be further improved by some institutional linkage among producer associations and this would have the added advantage of providing a permanent forum in which regular consultations could take place regarding developments in the world economy and international trade policy as they affect commodity markets, and regarding the support which might be needed within the framework of collective action by producers of specific raw materials.

83. In this connexion, it may be noted that the Conference of the Ministers for Foreign Affairs of the Non-Aligned Countries, held at Lima in August 1975, called on developing countries to consider the possibility of joining existing producer associations or of establishing new ones as a means of increasing their effectiveness in international markets. The Conference also approved, in conformity with a resolution of the Conference of Developing Countries on Raw Materials, held at Dakar in February 1975,[13] a resolution establishing a Council of Associations of Developing Countries Producers-Exporters of Raw Materials, for which a group of experts is in the process of preparing the draft statutes.

CHAPTER III

## *Economic co-operation among developing countries in the monetary field*[14]

### A. Introduction

84. Monetary co-operation is an area in which developing countries in several regions have achieved visible and practical results, sometimes simultaneously with closer trade and economic integration initiatives, sometimes as a forerunner to these. The undoubted success of the European Payments Union in reviving intra-Western European trade during the 1950s favourably disposed many policy-makers in developing countries to such arrangements, even though the restrictions characterizing Western Europe's mutual payments relationships in 1950 were different from those obtaining in the developing world of 1975 (e.g. the element of bilateralism is generally absent among the developing countries, whereas global payments restrictions are common).

85. Two broad categories of monetary co-operation among developing countries are surveyed in the present chapter: the multilateral clearing of payments, and reciprocal balance-of-payments support. The first category is basically concerned with the concentration – normally over short periods of time – of debit and credit balances arising from trade and other current transactions among countries participating in the clearing system, for the settlement of net balances in mutually agreed convertible currencies. The second category involves more complex and sophisticated arrangements among the participants, but in general terms relates to the multilateral financing of balance-of-payments deficits in order to avoid the adoption of trade restrictions or exchange controls.

86. Although monetary arrangements of the two types described above have been proposed or are being considered by a number of groups of countries in different parts of the world, this survey focuses on four existing arrangements: the Central American Monetary Agreement, the Payments Agreement of the Central Banks of the Latin American Free Trade Association, the Asian Clearing Union and the West African Clearing House. The characteristics of those four agreements are analysed and compared below, with the purpose of establishing common features and major differences as regards their scope, institutional aspects and operational arrangements with respect to agreed objectives. A brief description of these objectives follows.[15]

87. The Central American Monetary Agreement involves three major categories of monetary co-operation among the five participating countries (Costa Rica, El Salvador, Guatemala, Honduras and Nicaragua): (*a*) a system of voluntary harmonization of national monetary policies which may eventually lead to a full monetary union; (*b*) a multilateral clearing house for both current and capital transactions within the Central American Common Market; and (*c*) a regional monetary stabilization fund for balance-of-payments assistance to the central banks of the participating countries. The Agreement was entered into voluntarily by the central banks of the above-mentioned countries and does not have the legal force of an inter-

[13] See Lima Programme for Mutual Assistance and Solidarity (A/10217 and Corr.1), annex I, resolution XI.

[14] This chapter is essentially identical with a study on monetary co-operation among developing countries, prepared for the UNCTAD secretariat by a consultant, Mr. J. Gonzalez del Valle (TD/B/AC.19/R.6).

[15] An agreement establishing an Arab Monetary Fund was submitted for adoption by the Committee of the Governors of the Arab Central Banks meeting in November 1975. The characteristics and objectives of this agreement are not discussed in the main body of this chapter, since the necessary information was not available to the author. A description of the Fund is given in a note prepared for the UNCTAD secretariat by Mr. R. El Sayed (TD/192/Supp.1/Add.2).

TABLE 2

**Multilateral institutional arrangements existing for selected primary commodities, 1975**

| *Commodity* | *Producers' associations of developing countries* | *Consumers' associations* | *Producer-consumer multilateral agreements or associations* |
|---|---|---|---|
| Wool . . . . . . . | | | International Wool Secretariat |
| Cocoa. . . . . . . | Cocoa Producers' Alliance | | International Cocoa Agreement (and Organization) |
| Coffee . . . . . . | World Coffee (Sales Association) | | International Coffee Agreement (and Organization) |
| Cotton . . . . . . | | | International Cotton Advisory Committee/Arrangement regarding International Trade in Textiles |
| Rubber (natural) | Association of Natural Rubber-Producing Countries | | International Rubber Study Group |
| Jute. . . . . . . . | Jute International | | Informal price arrangement on hard fibres (FAO Intergovernmental Group) |
| Sugar . . . . . . . | Group of Latin American and Caribbean Sugar-Exporting Countries | | International Sugar Agreement (and Organization) |
| Tea . . . . . . . . | | | Interim export quota arrangement (FAO Intergovernmental Group) |
| Bauxite. . . . . . | International Bauxite Association[a] | | |
| Copper . . . . . . | Intergovernmental Council of Copper-Exporting Countries[a] | | |
| Iron ore . . . . . | Association of Iron-Ore-Exporting Countries[a] | | |
| Lead and zinc . . | | | International Lead and Zinc Study Group |
| Mercury . . . . . | International Association of Mercury Producers[a] | IAEA | |
| Petroleum . . . . | Organization of Petroleum-Exporting Countries | | |
| Timber . . . . . . | African Timber Producers | | |
| Tin . . . . . . . . | | | International Tin Agreement (and Council) |
| Tungsten . . . . . | Primary Tungsten Association[a] | | UNCTAD Committee on Tungsten |
| Bananas . . . . . | Union of Banana-Exporting Countries | | FAO Intergovernmental Group |
| Coconuts/oil. . . seeds/groundnuts | Asian Coconut Community<br>African Groundnuts Council | | FAO Intergovernmental Group |
| Citrus fruit. . . . | Comité Maghrebin des agrumes et primeurs | | FAO Intergovernmental Group |
| Fish. . . . . . . . | Association of Fishmeal Producers[a] | | Comité de Liaison de l'Agriculture Méditerranéenne (CLAM) |
| Grains . . . . . . | | | FAO Intergovernmental Group |
| Meat . . . . . . . | Latin American Meat-Producers Association[a] | | FAO Intergovernmental Group |
| Olive oil . . . . . | | | International Olive Oil Agreement (and Council) |
| Pepper . . . . . . | Asian Pepper-Producers' Community | | |
| Rice. . . . . . . . | | | International Agreement |
| Wheat. . . . . . . | | | International Wheat Agreement (and Council) |

[a] Includes also developed market-economy countries.

national treaty. If became effective on 25 October 1974, but is actually the consolidation – with a few reforms – of three separate agreements signed by the Central American central banks in 1961, 1964 and 1969.[16]

88. The Payments Agreement among the central banks of LAFTA (Argentina, Bolivia, Brazil, Colombia, Chile, Ecuador, Mexico, Paraguay, Peru, Uruguay and Venezuela) was originally signed on 22 September 1965, and has since undergone a series of operational amendments. The Agreement provides for the multilateral clearing and settlement of balances arising from bilateral payments arrangements voluntarily entered into by each pair of central banks of the participating countries. The main purpose of the Agreement is to ensure an orderly settlement of authorized transactions in United States dollars to encourage closer trade and financial links within LAFTA.[17]

89. In September 1969, the LAFTA central banks and the Central Bank of the Dominican Republic subscribed to a supplementary agreement designed to provide short-term financing to those participants which might encounter temporary balance-of-payments difficulties as a result of the Latin American economic integration process. In practice, this amounts to additional credit facilities granted by LAFTA "surplus" countries to "deficit" countries with weak reserve positions facing difficulties in effecting payments due at the prescribed settlement dates. Access to such credit facilities is not automatic but must fulfil certain conditions specified in each case by Financial and Monetary Policy Council of LAFTA.[18]

90. The Asian Clearing Union is an agreement entered into by the central banks and monetary authorities of some members and associate members of ESCAP (Bangladesh, India, Iran, Nepal, Pakistan and Sri Lanka). It is specifically designed to establish a system for clearing payments among the countries concerned on a multilateral basis, and providing in addition for the promotion of further monetary co-operation in the ESCAP region. The Asian Clearing Union was recently established as a formal entity, and actual operations began on 1 November 1975.[19]

91. More recently, the central banks of 12 West African countries (Benin, Gambia, Ghana, Ivory Coast, Liberia, Mali, Niger, Nigeria, Senegal, Sierra Leone, Togo and Upper Volta) signed an agreement for the establishment of a West African Clearing House, which not only provides for the multilateral clearing and settlement of trade and other current transactions among the participating countries, but also contemplates further monetary co-operation on a regional scale. Six of those countries (Benin, Ivory Coast, Niger, Senegal, Togo and Upper Volta) participate in the clearing system as a monetary union (the West African Monetary Union) and are represented by a single central bank – the Banque Centrale des Etats de l'Afrique de l'Ouest. The Agreement for the Establishment of the West African Clearing House was signed at Lagos on 14 March 1975[20] and ratification procedures brought the Clearing House into existence on 25 June 1975. At a meeting held in September 1975, the location and the central banks from which the executive officers were to be nominated were agreed upon. The Union is expected to start operations during the second half of 1976.

92. The West African Monetary Union is in itself a most advanced stage of monetary integration involving a common monetary unit issued by a regional central bank and full centralization of the participants' international reserves. A new Union treaty was signed in November 1973 to replace the original treaty of May 1962. In the new treaty, a large-scale harmonization of the participating countries' economic and development policies is contemplated which clearly reaches beyond the limits of multilateral organization in respect of monetary affairs.[21]

### B. Multilateral clearing arrangements

93. The institutional and operational features of the existing clearing arrangements among developing countries may be analysed and compared in several ways. For the purposes of the present survey, it appears convenient to single out the various characteristics of a standard clearing system involving different national currencies, i.e. its economic objectives, financial rights and obligations of participants, regulations concerning transactions eligible for clearing, methods for settlement of net balances, common unit of account and foreign-exchange regulations applicable to multilateral clearing.[22]

#### 1. *Economic objectives*

94. Clearing arrangements are usually thought of as economic policy instruments designed to encourage the liberalization of trade and payments among the participating countries. This was the basic idea of the European Payments Union in the 1950s and seems also to have inspired the establishment of some of the existing clearing arrangements among developing countries. For instance, trade liberalization is a specific objective of the Agreement

[16] For the text of the Central American Monetary Agreement and the General Regulations applicable thereto, see Banco Centroamericano de Integración Económica, *Revista de la Integración Centroamericana* (Tegucigalpa, Honduras), No. 14, 1975, pp. 75-119.

[17] The text of the Agreement among the central banks of LAFTA is reproduced in document TD/B/609/Add.1 (vol. II), p. 44 (in Spanish only).

[18] See the Multilateral Credit Agreement to alleviate temporary shortages of liquidity (Santo Domingo Agreement), *ibid.*, p. 50 (in Spanish only).

[19] The tex of the Agreement establishing the Asian Clearing Union is reproduced in document TD/B/609/Add.1 (vol. V), p. 165.

[20] The text of the Agreement establishing the West African Clearing House is reproduced in document TD/B/609/Add.1 (vol. III), p. 108 (in French only).

[21] The text of the Treaty establishing the West African Monetary Union is reproduced in document TD/B/609/Add.1 (vol. IV), p. 23 (in French only).

[22] A comparative summary of the characteristics of the four regional clearing arrangements among developing countries is presented in document TD/192/Supp.1/Add.1.

for the Establishment of the West African Clearing House (art. II, para. 2 (*c*)), whereas the abolition of payments restrictions and financial surtaxes was one of the main reasons for the conclusion of the Payments Agreement among the central banks of LAFTA (third paragraph of the preamble).

95. On the other hand, where trade or exchange restrictions are not a serious obstacle, other economic objectives of more permanent value are attached to the clearing arrangements. The Central American Clearing House, for instance, was specifically established to encourage the use of the participants' national currencies – instead of the traditional international currencies – to make payments and money transfers among themselves (art. 11, Central American Monetary Agreement), and that is also a major objective of the Asian Clearing Union (art. II, sect. (*b*)) and of the West African Clearing House (art. II, para. 2 (*a*)). The expected economic effect of this approach is to reduce the need for an otherwise intensive utilization of the participants' foreign exchange reserves and to reduce the cost to the private sector of intra-regional monetary transfers. This expectation is clearly spelled out in case of the West African Clearing House (art. II, para. 2 (*b*)).

### 2. *Degree of multilateralization*

96. Although a full multilateral clearing of eligible transactions and settlement of net balances is presumably the main reason for promoting regional monetary arrangements, since important economic advantages may be obtained in this way, the LAFTA Payments Agreement does not exactly fulfil that condition. This is due in part to the limited objectives of the Agreement, which in turn corresponds to the rather modest achievements of the LAFTA Treaty from the point of view of economic integration. Political obstacles have resulted in a slow process of trade liberalization among the participating countries, and have therefore given little encouragement to the improvement of the original payments arrangement.

97. The multilateral clearing provided for in the LAFTA Payments Agreement is based on bilateral arrangements which must be entered into separately by each pair of participants, rather than on a global approach which implicitly takes into account the position of each participating country vis-à-vis the other participants as a group. Although it is true that the multilateral settlement of net debit and credit items allows for a simplification of the final payments in convertible currencies, this advantage is mainly of an operational character and does not yield the economic benefits accruing to both the monetary authorities and the private sector from the more intensive flow of credit facilities arising from a fully multilateral arrangement.

### 3. *Interim finance*

98. Strictly speaking, clearing arrangements are not designed – nor should they be expected – to provide balance-of-payments financing of a more or less permanent nature to the participants. Interim finance is mainly intended to avoid the wastefulness of too frequent settlement payments among monetary authorities, especially where the pattern of intra-regional trade and payments is relatively balanced and may therefore be expected to determine a low ratio of settlements to total clearing operations. Moreover, since interim finance represents a temporary "freeze" of the creditor's foreign exchange reserves, it should be treated, so far as possible, in the same way as any other foreign-exchange investment as regards convertibility, availability and interest earnings.

99. In the four clearing agreements under analysis, the above-mentioned requirements of interim finance have invariably been applied. The obligation to grant automatic credit is usually limited to a rather small proportion of the average annual turnover of trade and/or payments channelled through the clearing systems. In the Asian Clearing Union, the limit of net automatic credit granted is equal to one-twelfth of the annual visible exports – with the exception of exports of petroleum, natural gas and the products thereof – to other participating countries (art. VI, para. 3 (*a*)), and in the West African Clearing House such credit is equal to 20 per cent of the combined annual value of the import and export trade with the other participants (art. VIII, para. 1). In the case of the Payments Agreement among the central banks of LAFTA, the credit commitments are specifically fixed in United States dollars in each bilateral arrangement (art. 1), and there is probably a wide dispersion of credit ratios.

100. The Central American Clearing House has traditionally followed a different approach. Credit commitments are the same for all participants, although their individual positions in intra-regional trade and payments are obviously different (art. 13, Central American Monetary Agreement). In absolute terms, the uniform credit lines are very small – only $3 million – and in relative terms they represented only 2.2 per cent of total clearing operations in 1974, which is probably a much lower ratio than the implied credit commitments in both the Asian Clearing Union and the West African Clearing House arrangements.[23] The three Agreements, however, provide for voluntary credit increases granted by "surplus" participants, and this has in fact been a regular practice in the Central American Clearing House.

101. From the viewpoint of access to interim finance, the existing clearing arrangements, except in the case of the LAFTA Payments Agreement, are deliberately designed to provide differential treatment as compared with credit commitments. The Asian Clearing Union allows participants to accumulate debit balances up to one twenty-fourth of their annual visible imports – with the exception of those of petroleum, natural gas and their products – from the other participating countries (art. VI, para. 3 (*b*)), and in the case of the West African Clearing House such allowance may reach 10 per cent of the combined annual value of

[23] See Consejo Monetario Centroamericano, "Informe de Operaciones de la Cámara de Compensación Centroamericana" (San José, Costa Rica, February 1975) (mimeographed).

import and export trade with the other participants (art. VIII, para. 1). In the Central American Clearing House, there is in theory no specific limitation to the outstanding debit balance, since it amounts in practice to the actual result of each participant's position vis-à-vis the other four participants in intra-regional trade and payments.

102. The maturity of interim finance is directly related to the length of the settlement periods fixed in the clearing arrangements, but must be assessed in the light of automatic drawing rights and credit commitments. The period of settlement varies widely in the existing arrangements, from a minimum a four weeks in the Asian Clearing Union (art. VI, para. 1 (*a*)) to a maximum of six months in the Central American Clearing House (art. 14, Central American Monetary Agreement). A period of one month has been established in the West African Clearing House (art. VIII, para. 9). In the case of the LAFTA Payments Agreement, the settlement period was originally fixed at two months and afterwards it was increased to three months; it is now four months (art. 3). The Agreement Establishing the Asian Clearing Union enables the Board of Directors to change the length of the settlement period, while in the case of the other three Agreements an amendment to the basic texts would presumably be required.

103. As regards the payment of interest on outstanding net balances arising from clearing operations, the four arrangements under analysis provide for appropriate compensation to creditors. In most cases, the specific determination of the rate of interest to be applied is left to the respective governing bodies, in order to allow for flexibility in accordance with the actual conditions prevailing in the financial markets. In both the Central American Clearing House and the LAFTA Payments Agreement, interest rates have in practice been set at somewhat lower levels than international rates, but this hardly represents a general policy of interest subsidies. In the West African Clearing House, the interest rate charged or allowed on outstanding balances is the arithmetic mean of the participant Banks' rediscount rates. Between 1965 and 1968, the LAFTA Payments Agreement encouraged the abolition of interest payments in the bilateral credit arrangements among participants, but this approach does not appear to have had an important effect in the expansion of the clearing arrangement as such.

### 4. *Transactions eligible for clearing*

104. Payments and transfers eligible for multilateral clearing depend very much on non-technical considerations and are usually determined by the stage of development of economic relationships among the participating countries. In this sense, the Central America Clearing House is perhaps representative of a high degree of economic integration, since all payments arising from both current and capital transactions within the Central American Common Market are eligible for multilateral clearing, provided such payments are made in the national currencies of the member countries (art. 12, Central American Monetary Agreement). This is due to the fact that exchange controls have been rather exceptional in the evolution of Central American monetary institutions since the 1930s. Moreover, whenever exchange restrictions have been established since the creation of the regional Common Market, member countries have voluntarily exempted the other Central American countries from their application.[24]

105. There is no defined pattern of eligibility in the LAFTA Payments Agreement, since the current and capital transactions which may be channelled through the clearing system must be specifically agreed to between each pair of participants in the bilateral credit arrangements. On the other hand, the Agreement Establishing the Asian Clearing Union defines the eligible transactions in terms of all payments from a resident in the territory of one participant to a resident in the territory of another participant, plus current international transactions as defined in the Articles of Agreement of IMF, but it specifically excludes payments for petroleum, petroleum products, natural gas, and natural gas products (art. V, para. 2). Moreover, in the regulations approved by the Board of Directors in June 1975, all payments between Nepal and India, between Pakistan and Iran and between the governments of the participants were declared ineligible.[25]

106. The eligibility requirements of the West African Clearing House are in principle more liberal than the above-mentioned arrangements. All current transactions among countries of the participants are eligible, except such transactions as may be declared ineligible by the Governing Committee of the Clearing House, and payments related to the re-exportation of goods originating in countries whose central banks or monetary authorities are not participants (art. VIII, para. 3). It must be noted, however, that payments among the six participating countries that belong to the West African Monetary Union are not subject to the eligibility rules of the West African Clearing House, owing to the fact that those countries have a common currency (art. VIII, para. 5).

### 5. *Settlement of net balances*

107. The basic idea of clearing payments in terms of the various national currencies is linked to the expectation that participants are willing and able to settle net debit balances in convertible currencies acceptable to the creditors. This principle is embodied in the clearing arrangements among developing countries. It may be recalled that this question of convertible balances was a controversial issue in the 1950s – at least in Latin America – when the possibilities of promoting the establishment of payments unions among the less developed countries began to be seriously discussed.

108. In the LAFTA Payments Agreement, the settlement of net balances must be carried out exclusively in United States dollars (art. 2), and this is consistent with the

[24] This was the case for El Salvador in 1961, Guatemala in 1962 and Costa Rica in 1967.

[25] See Asian Clearing Union, Documents for Meeting No. 2 of the Board of Directors (Tehran, Iran, June 1975) (mimeographed).

provision that transactions channelled through the system must also be expressed in that currency. In principle, final payment of net balances in dollars is also required in the Central American Clearing House, but debtor and creditor participants may bilaterally agree on any other convertible currency (art. 14, Central American Monetary Agreement). The Central American Clearing House also makes provision for settlement by means of reciprocal short-term investments denominated in dollars or any other mutually agreed convertible currency (art. 16, Central American Monetary Agreement).[26]

109. The question of the currency to be used in settlements is treated with more leniency in both the Asian Clearing Union and the West African Clearing House. The Agreement Establishing the Asian Clearing Union enables the Board of Directors to specify any international reserve asset, and provision is also made for final payment in the currency of the creditor, subject to the creditor's specific consent (art. VI, para. 4 (*b*)). The Board of Directors has decided that settlements must be made in dollars or in any other mutually acceptable currency.[27] The Agreement for the Establishment of the West African Clearing House provides for settlement in any convertible currency mutually agreed on between the participants making and receiving final payment, upon suggestions to be made by the Governing Committee (art. VIII, para. 9). No information is available on the policies adopted in this connexion, but it is fairly safe to assume that settlements will be carried out in French francs, pounds sterling and possibly dollars.

### 6. *Unit of account*

110. The clearing agreements which involve payments and transfers denominated in the national currencies of the participants have required the adoption of a common unit of account for the valuation of clearing operations and outstanding balances. The unit of account is not merely useful for statistical and accounting purposes; it is in practice the only means to make effective the guarantees of maintenance of the value of the creditors' claims. The choice of an appropriate valuation of the unit of account has become an especially important technical problem since the system of fixed parities of IMF was distorted in 1971.

111. The two existing Latin American clearing arrangements are closely linked to the dollar for obvious reasons. In the LAFTA Payments Agreement, there is no need for a separate unit of account because transactions are denominated, compensated and finally settled in dollars as an intervention currency. In the Central American Clearing House, a specific unit of account has been established — the "Central American peso", with a value equal to $1.00 — and provision has been made for changes in the value of the unit, which require the unanimous vote of the Central American Monetary Council (arts. 19 and 42, Central American Monetary Agreement). It is doubtful whether the present value of the Central American peso will be changed, as long as the Central American currencies remain pegged to the dollar.

112. The Agreement Establishing the Asian Clearing Union specifically creates the "Asian Monetary Unit", whose value is equal to SDR 1.00 allocated by IMF, but the Board of Directors may change its value at any time by a unanimous vote of all the Directors (art. IV). Since the value of the intervention currencies used by the participants in the Asian Clearing Union fluctuates in terms of the SDR, special procedures have been adopted by the Board of Directors which involve daily computations of the exchange rates of the participants' currencies against their respective intervention currencies, and the application of the rates for intervention currencies in terms of the SDR as announced by IMF. As mentioned above, it is expected that these procedures will be applied as soon as the Asian Clearing Union begins operations after November 1975.[28]

113. The unit of account of the West African Clearing House is simply called "unit of account of West Africa" (art. VII) and its par value was subsequently defined by the Governing Committee as equivalent to one SDR. Rates of exchange between national currencies and the SDR are to be calculated daily.[29]

### 7. *Other covenants*

114. The question of exchange-rate guarantees becomes important in the clearing arrangements when payments are denominated in national currencies in order to ensure the maintenance of the value of claims. Participants in the Central American Clearing House undertake to notify without delay any changes in the parities of their respective currencies and agree to settle their debit balances at the parity preceding such changes (art. 18, Central American Monetary Agreement). A similar provision is made in the West African Clearing House for the maintenance of the value of claims in terms of the unit of account (art. VII, sect. 4). In both cases, the exchange guarantees are extended to official holdings of documents eligible for clearing and items in transit.

115. The convertibility guarantee is a common feature of the four clearing arrangements under analysis and is intended to protect the creditors against default or delay in settlement payments arising from exchange controls or any other payments restrictions established by debtor participants. In case of default, exceptional measures are provided for in the agreements, including the suspension of the defaulting participant and even its eventual exclusion from the clearing system. Delays in settlement payments are treated more liberally, usually involving the application of interest surcharges.

[26] The United States dollar is, of course, the only intervention and reserve currency used in Latin America.

[27] See foot-note 25 above.

[28] *Idem.*

[29] The rules and regulations covering the operations of the West African Clearing House were adopted at a special meeting of the West African Sub-regional Committee of the Association of African Central Banks at Freetown, Sierra Leone, 22 and 23 September 1975.

## C. Reserve management and reciprocal financial assistance

116. As was explained earlier, two schemes designed to furnish balance-of-payments assistance have emerged in Latin America from the arrangements originally limited to the clearing of payments. The Central American Stabilization Fund was established in 1969 and is a separate entity from the Central American Clearing House, while the LAFTA Financial Assistance Agreement – in which the Central Bank of the Dominican Republic also participates – is essentially a supplementary credit facility directly linked to the original LAFTA Payments Agreement.[30]

117. More recently, the central banks of the countries parties to the Cartagena Agreement[31] (also known as the "Andean Group") have been considering the creation of a pool of international reserves, although very limited technical information on this proposal is available. It must be recalled that the six member countries of the Andean Group are also members of LAFTA and therefore participate in the LAFTA Financial Assistance Agreement.

118. Document TD/192/Supp.1/Add.1 contains a summary of the major differences and similarities in the three Latin American mutual assistance schemes just mentioned. The following comments and observations focus on the basic features on those schemes, i.e. reserve management arrangements, financial resources, lending operations and policy surveillance provisions.

### 1. *Reserve management*

119. The idea of pooling international reserves for the purpose of increasing the average yield of temporary investments of foreign-exchange holdings is only worth considering when such a higher yield is an important economic policy objective of the participants and if there are in fact substantial differences among the international interest rates applied to different magnitudes of temporary investment. Apparently, neither of those two conditions was fulfilled when some Latin American countries began to consider the establishment of reserve pools in the early 1960s, and it is not clear that such conditions exist at present.

120. One major objection to the pooling of reserves is that national central banks are reluctant to surrender their substantial freedom of action as regards international reserve management, including the placement of temporary foreign-exchange investments in certain commercial banks from which credit facilities or any other important advantages may be obtained. In some cases, such freedom of action prevails over the possibility of earning somewhat higher interest rates. That explains why most central banks would only be prepared to participate in reserve pools on a very small scale in relation to their total reserve holdings, but it is clear that small-size reserve pools would not be able to achieve the objective of significantly higher earnings from their investments.

121. Neither the Central American Stabilization Fund nor the LAFTA Financial Assistance Agreement relies on the pooling of reserves as a major source of financial resources. On the other hand, the preliminary proposal for an Andean Group common reserve fund deals primarily with the pooling of foreign exchange from the participants' gross reserves in increasing proportions. Details concerning the specific purposes of such a reserve pool are not available, but it is known that the idea of a joint management of international reserves at the regional level is designed to foster the process of monetary integration among the Andean Group countries.[32]

### 2. *Financial resources*

122. The Central American Stabilization Fund is based on a combination of foreign-exchange contributions from participants and borrowed external resources. Participants contribute in equal amounts – at present $10 million each – which must be transferred to the Fund's agent bank at the request of the Central American Monetary Council, depending on the actual needs for financing the Fund's lending operations (art. 24, Central American Monetary Agreement). The Fund may borrow from abroad, provided that all loan agreements are first approved by the Council by the unanimous vote of its members and then ratified by the participating central banks (art. 23, Central American Monetary Agreement). The Fund is also authorized to accept foreign-exchange deposits from participants on a voluntary basis.

123. At present, the aggregate financial resources of the Central American Stabilization Fund amount to approximately $130 million, of which about 38 per cent consists of the participants' contributions and the remainder corresponds to $81 million of external credit lines arranged with international agencies or granted by other Latin American central banks and a few foreign commercial banks. The present size of the Fund is approximately the same as the aggregate quotas of the Central American countries in IMF and is equivalent to about one-third of the participants' combined net international reserves as at June 1975.[33]

124. The financial resources of the LAFTA Financial Assistance Agreement consist of stand-by credit lines extended by participants in proportion to their quotas in IMF. The lines of credit are activated by means of direct transfers from the creditor participants to the debtor participant through a common correspondent bank in New York City. The initial amount of the aggregate lines of credit was $30 million when the Agreement was signed in September 1969. This amount has been increased from time to time and is now $120 million.[34]

[30] See foot-note 18 above.

[31] Subregional Integration Agreement, signed at Bogotá on 26 May 1969 by Bolivia, Chile, Colombia, Ecuador and Peru. Venezuela adhered to the Agreement subsequently.

[32] See Junta del Acuerdo de Cartagena, *"Notas sobre un Fondo Común de Reservas para el Pacto Andino"* (Cali, Colombia, December 1974).

[33] Source: Central American Monetary Council, Executive Secretariat.

[34] Source: Permanent Executive Committee of LAFTA.

### 3. *Lending operations*

125. There is no similarity as regards credit operations between the Central American Stabilization Fund and the LAFTA Financial Assistance Agreement. In the case of the former, a range of credit facilities to match different kinds of balance-of-payments disequilibria is provided for, while in the case of the latter there is only a standard type of drawings from the system. The preliminary proposal for the establishment of the Andean Group common reserve fund foresees the existence of credit facilities, but no specific ideas have been developed yet in this connexion.

126. In the Central American Stabilization Fund, three kinds of stabilization loans are provided for: (*a*) loans of up to one-year maturity to finance temporary shortfalls in the gross reserve position of any participant, (*b*) loans of up to five-year maturity to correct balance-of-payments disequilibria arising from unforeseen and exceptional events, such as bad crops, loss of productive installations, economic disasters, etc., and (*c*) loans of up to eight-year maturity to support the adjustment process in cases of persistent balance-of-payments disequilibria (art. 26, Central American Monetary Agreement). The actual maturities and amounts of stabilization loans must be determined by the Central American Monetary Council in each case. However, provision is made for quasi-automatic drawings on the Fund when the amount does not exceed a participant's cash contribution to the Fund and the maturity is up to one year (art. 28, Central American Monetary Agreement).

127. The basic condition for the utilization of the facilities provided under the LAFTA Financial Assistance Agreement is the existence of sizeable net debtor items in the LAFTA clearing system affecting countries with global balance-of-payments deficits and weak international reserves (art. 3). A participant in this situation may have access to drawings not exceeding 30 per cent of the Agreement's total resources – i.e. of the aggregate lines of credit – or 300 per cent of the participant's own credit line, provided that drawings must be normally repaid within one year (art. 4 and 5). Such drawings may be made without prior consultation with the creditor participants, but if drawings remain outstanding for more than nine months, a detailed report on the debtor's balance of payments must be submitted to all creditor participants to justify any further use of the facility (art. 10).

### 4. *Policy surveillance*

128. Of the three schemes under analysis, the Central American Stabilization Fund is the only one in which the multilateral surveillance of balance-of-payments policies is applied. Given the purposes of the stabilization loans, borrowers are required to submit formal statements or programmes describing the adjustment policies to be adopted in order to correct the external disequilibria which justify the Fund's financial assistance. Such policy statements and programmes must be evaluated by the Central American Monetary Council and are subject to semi-annual review (art. 34, Central American Monetary Agreement).

129. It must be borne in mind that the Central American central banks have been engaged in a process of monetary integration since 1964. This explains why the Central American Stabilization Fund's rules and procedures are designed to enhance the participants' close relationships from the point of view of monetary and exchange policies. The multilateral surveillance of national financial policies is therefore a condition which has been accepted by the participants in order to carry out the process of monetary integration. In this sense, the Fund – together with the Central American Clearing House and the programme of policy harmonization of the Council – are essential elements in the whole approach to the eventual establishment of a monetary union of the Central American countries.

130. The viability of multilateral policy surveillance in Central America will be tested shortly, when the Council approves three stabilization loan applications for an aggregate amount of $60 million. It is expected that borrowers will be required to explain fully their present adjustment policies and will be asked to report periodically to the Council on any changes in those policies beginning in 1976. A fourth stabilization loan is also expected to be granted before the end of 1975, thus increasing the Fund's claims on participants to $85 million.[35]

## D. Conclusions and suggestions

131. The foregoing analysis shows that in the last 15 years monetary co-operation among developing countries has achieved some important concrete results in Latin America, and the same movement is gaining substantial ground both in Africa and Asia. The major achievements concern the establishment and strengthening of multilateral clearing arrangements, some progress also having been made in the launching of mutual financial support for balance-of-payments purposes. Special attention should be paid to the future development of the Asian Clearing Union and the West African Clearing House, which have already started or are about to start operations on the basis of improved techniques regarding the maintenance of the value of net claims in a period of difficult international monetary relationships.

132. Possible improvements in the clearing arrangements have been explored at the technical level in various quarters. For instance, it has been suggested that interim credit facilities could be improved by increasing the amount of credit lines and/or lengthening the settlement periods. Although it is true that both approaches would give the debtor participants additional benefits, it must be borne in mind that creditor participants would not be encouraged to increase the amount for lengthen the maturity of interim finance unless their claims had the same characteristics of convertibility and availability as any other kind of international reserves. Since no general rules can seriously be suggested in this connexion, it may perhaps be useful to consider the application of a formula providing for recipro-

[35] Source: Central American Monetary Council, Executive Secretariat.

cal foreign-exchange investments on a bilateral basis, such as the one provided for in the Central American Clearing House to help participants facing global balance-of-payments deficits and/or weak international reserve positions.

133. Another improvement might be to change the unit of account from the dollar to the special drawing right of IMF. This has already been done in the case of the Asian Clearing Union and, more recently, in that of the West African Clearing House. In the two Latin American clearing arrangements – particularly the LAFTA Payments Agreement – such a proposal would only be justified if the dollar were to lose ground as the dominant intervention currency of the participants, which does not appear to be the case at the moment. However, the provisions of the Central American Clearing House implicitly contemplate such a possibility since the Central American Monetary Council is empowered to change the valuation of the unit of account if and when substantial reforms in the IMF parity system are legally adopted.

134. From a broader point of view, the possibility of mergers of, or direct linking among, regional clearing systems has also been mentioned from time to time. It is obvious that the merger of the two Latin American systems would not be to the advantage of the Central American countries, since their clearing arrangement is considerably more advanced and does not lend itself easily to the reintroduction of payments made directly in international currencies into the regular flow of operations eligible for multilateral clearing. Nevertheless, the link-up of the two systems was explored in 1971 and has again been considered as a consequence of increasing trade and payments between the Central American countries, on the one hand, and some LAFTA members – especially Mexico, Venezuela and Colombia – on the other.[36] In fact, links between the two clearing schemes could be achieved on a piecemeal basis, making it possible for interested countries belonging to one scheme to participate in the other scheme without all its partners being required to follow the same course. Thus, Mexico, Venezuela or Colombia might participate in the Central American Clearing House for the purposes of payments to or from the Central American subregion, without this affecting these countries' mutual payments or payments to or from other LAFTA members, which could continue to be cleared through the LAFTA scheme.

135. A particularly promising area for monetary links among groupings is provided by the transferable-rouble clearing system operated by the International Bank for Economic Co-operation in Moscow, which can be utilized by the Bank's members and non-member countries alike. In practice, however, little use has been made of this facility by individual developing countries and there are no formal group-to-group links between the Bank and any of the functioning clearing schemes of developing countries. Moreover, the rules and regulations of the Bank are tailored to fit the needs of individual non-member countries, rather than those of groups of such countries. On the other hand, there are no monetary links between individual members of the Bank and any of the clearing schemes of developing countries. There appears to be room for improvement along several of these lines.[37]

136. Apart from clearing arrangements of the type discussed in the body of the present chapter, a scheme has been proposed under which mutual trade among developing countries might be stimulated by the creation of liquidity units to be issued by a central authority to developing countries willing to participate in this scheme, which would *ipso facto* stand ready to accept a given number of such units in payment for goods and services exported to other developing countries.[38] These liquidity units would not enjoy full convertibility, since they would not be acceptable by developed countries, but their wide acceptance throughout the developing world would serve to stimulate interregional trade among developing countries without the institutional obstacles involved in the establishment of a single clearing union covering the whole of the third world, which has repeatedly been proposed.[39]

137. As far as regional arrangements for reciprocal balance-of-payments support are concerned, the present survey shows that there has not been an over-all pattern of development similar to that of the clearing arrangements. The three existing or proposed Latin American schemes are at substantially different stages of development and follow different approaches, depending on the degree of economic integration of the countries concerned. It is clear that schemes for joint reserve management or mutual financial assistance bear a direct relationship to the prevailing political conditions, since they involve international credits and perhaps some degree of external policy surveillance.

138. The Central American Stabilization Fund may be singled out as a fully-fledged system of reciprocal financial support for balance-of-payments purposes in which there is a resemblance to the policies and practices of the general account operations of IMF. Conditional financial assistance is subject to progressive surveillance of the adjustment policies, in accordance with the amount and maturity of the stabilization loans approved by a multinational organ. It also involves a blend of the participants' own foreign-exchange reserves and external borrowing which is not necessarily subject to conventional conditions as regards the availability and financial cost of resources.

[36] Source: *idem.*

[37] See the report by the UNCTAD secretariat entitled "Possible measures of support by the socialist countries of Eastern Europe for regional economic integration among developing countries" (TD/B/549), paras. 141-149; *Official Records of the Trade and Development Board, Fifteenth Session (first part), Annexes,* agenda item 6, document TD/B/539, para. 29; and the note by the UNCTAD secretariat entitled "Considerations on the problems involved in the establishment of different forms of multilateral payments arrangements between developing and socialist countries" (TD/B/AC.7/2).

[38] See F. and M. Stewart, "Developing countries, trade and liquidity: a new approach", *The Banker* (London), vol. 122, No. 553, March 1972, p. 310.

[39] For example, see Lester B. Pearson *et al, Partners in Development: report of the Commission on International Development* (London, the Pall Mall Press Limited, 1969), p. 97, recommendation 8.

139. The LAFTA Financial Assistance Agreement is in a different category of external credit facility. Although access to the facility is conditional upon a balance-of-payments need test, the amount and maturity of drawings are directly determined by a participant's net position in the LAFTA clearing system and therefore depend on the pattern of intra-regional trade and payments, which obviously tend to form only a small proportion of the participant's aggregate international transactions. Direct surveillance of adjustment policies is not specifically provided for in the system, and thus one important factor for the harmonization of the participants' financial policies has been disregarded.

140. Co-operation in reserve management among developing countries has not been systematically explored on a large scale. The pooling of reserves is being contemplated in the Andean Group, but few details are known as regards the possibility of extending the system to provide balance-of-payments support to the participants. It has been found that the mere pooling of international reserves to obtain better financial earnings from foreign-exchange investments does not appear attractive to central banks, which prefer freedom of action to negotiate bilateral advantages abroad. It is also doubtful whether merely obtaining higher earnings is an important economic objective of developing countries as compared with the positive results which may be derived from other forms of monetary co-operation.

141. Notwithstanding the above, a case may be made for joint reserve management with the participation of developing countries with large international foreign-exchange holdings, such as the members of OPEC. These countries are obviously in a better position to use reserve management policies as a tool for obtaining important financial advantages in the international money markets. If they were willing to share such a powerful instrument with non-oil-producing less developed countries, a number of possible monetary co-operation arrangements could be worked out by mutual agreement among the interested parties.

142. It is probably too early for the countries members of OPEC to become important reserve centres, since so far their national management reserve policies have not followed a pattern independent from that of developments in the traditional money markets and intervention currencies. Those countries, however, might consider the establishment of bilateral or multilateral "swap" arrangements to improve the stand-by facilities available to developing countries facing balance-of-payments difficulties. Alternatively, the possibility of extending collective foreign-exchange guarantees in favour of other developing countries might be worth considering, in order to enable them to borrow in international money markets for balance-of-payments support. The industrialized countries have launched financial arrangements of both kinds which could easily be adapted to the special needs of developing countries.

143. Finally, the possibility of more comprehensive financial arrangements supported by the strong reserve position of the countries members of OPEC should not be disregarded. There is no technical reason why multilateral stabilization schemes similar to the Central American Stabilization Fund could not be established with the participation of countries members of OPEC. From the operational point of view, such schemes need not pose serious obstacles, and, from the policy viewpoint, it would only be reasonable to expect that borrowers would be prepared to accept conditions regarding the performance of their adjustment policies, since they have been doing precisely the same thing for many years in their relations with IMF.

CHAPTER IV

## *Economic co-operation among developing countries in the field of production*

### A. Multinational enterprises as an instrument of co-operation among developing countries

144. The scope for joint action by developing countries in the field of production has been substantially widened during recent years as some developing countries have substantially increased their financial resources, some others have made rapid progress in building up their industrial structures and their entrepreneurial and technological capabilities, and others have become aware of the importance of the relatively scarce raw materials they possess. New projects and proposals for multinational enterprises[40] among developing countries cover a variety of activities. They extend beyond the field of production into the development of infrastructure and common services. In fact, the latter may often be a pre-condition for successful co-operation regarding the former.

145. The increased potential for co-operation in production among developing countries of all regions suggests the need for progress towards an international framework which would permit its exploration on a more systematic and co-ordinated basis. Such a framework should facilitate the identification, promotion and operation of multinational enterprises combining natural resources, technology, management, finance and markets of individual developing countries in a mutually beneficial way and in accordance with the principles of partnership.

146. The UNCTAD secretariat undertook a series of studies on joint ventures among developing countries,[41] covering the main regions of the developing world, with the aim of analysing a selected number of existing multinational enterprises in developing countries or projects about to be implemented. A number of characteristic

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[40] The term "multinational enterprise" as used herein is meant to cover projects and ventures in which two or more developing countries participate and in which control rests with one or more of the participating countries.

[41] "Joint ventures among Latin American countries" (TD/B/AC.19/R.2 and Corr.1); "Joint ventures among African countries" (TD/B/AC.19/R.3); "Joint ventures among Arab countries" (TD/B/AC.19/R.5 and Corr.1); "Joint production ventures among Arab countries" (TD/B/AC.19/R.5/Add.1); and "Joint ventures among developing Asian countries" (TD/B/AC.19/R.7 and Corr.1).

multinational enterprises were selected for each region within industry, agriculture and transport, covering a variety of country combinations and factor complementarities. The main objective of the case studies undertaken was to identify obstacles encountered in practice, and the mechanisms, including the financial, legal and institutional arrangements, which ought to be useful in overcoming them and which could constitute the elements of a framework within which multinational enterprises among developing countries could operate. The evaluation in section B below is largely based on these case studies.

## B. Evaluation of past experience and present trends

### 1. *The relationship of multinational enterprises to comprehensive schemes of economic co-operation among developing countries*

147. Most of the joint venture experiences studied relate to *ad hoc* initiatives among the prospective partners themselves, whether in the private or the public sector. Despite the numerous studies undertaken in the past with respect to the promotion of regional or subregional integration and economic co-operation, these efforts have had little impact on the effective development of multinational enterprises among developing countries.

148. Multinational enterprises within integration or economic co-operation schemes have remained the exception rather than the rule. The majority of joint projects in all regions consists either of individual enterprises or of a small number of closely interrelated investment projects within one economic sector. The most successful examples are those involving the participation of no more than two or three countries.

149. Experience shows that bilateral or trilateral approaches to specific joint projects have been easier to negotiate and more successful, in terms of the number of projects already implemented, than most multinational approaches in the past aiming at the co-ordination or harmonization of national industrial development plans, multisectoral package deals, etc. The progress achieved by the Andean Group in the programming of a few major industrial sectors among its member countries is, however, a notable exception to this pattern.

150. The multinational enterprise approach constitutes an attempt to constitute a single co-operation project in which the prospective partners have common objectives and interests and which can be implemented with a built-in equilibrating mechanism. The existence of common objectives and interests among the partners directly involved removes the difficulties involved in attempts at industrial co-operation initiated by planning agencies which are not themselves directly involved in the operation of multinational enterprises. Because of the limited and specific objectives, agreement on the establishment of such multinational enterprises does not require elaborate over-all commitments involving a large number of related projects or industrial policy in general. The formation of multinational enterprises seems therefore to provide a flexible and suitable technique for the promotion of economic co-operation among developing countries in general, on a bilateral or trilateral basis within economic regions or also between countries belonging to different economic regions.

### 2. *Sectors of operation*

151. Developing countries have for a long time co-operated successfully in the production of services and in the development of infrastructural links, although only rarely by creating special multinational enterprises for that purpose. One reason for this earlier success may lie in the fact that the common objectives of the participating countries were relatively easy to identify in areas such as the construction of roads, railways and airport facilities, the interconnexion of power systems and the joint development of water basins. In many cases, this co-operation occurred among contiguous countries, in some cases between coastal and land-locked countries for which such co-operation is particularly important. In addition, international facilities have been readily available in the past to assist such projects, not only in the pre-investment phase, but also to finance their implementation under specially favourable terms.

152. Similar arguments apply also to the service sector, where progress in joint activities such as commercial banking, reinsurance, tourism and general contracting has also been favoured by easily identifiable common objectives, the relatively easily established feasibility of individual projects and the absence of sophisticated technological requirements.

153. In contrast, these tasks are less easily accomplished in the case of industrial multinational enterprises, where technological know-how, financial structures and management capabilities of a more complex nature have to be provided, mainly by the partners themselves. Consequently, multinational industrial enterprises are to be found mainly in branches of industry where at least one of the partners has acquired experience in the manufacture of the final product or of the required machinery and equipment or has developed a technology of its own. Multinational enterprises of this kind usually operate in medium-scale industries, such as those concerned with consumer goods, metal fabricating and engineering products, employing relatively simple technology and not too much capital and already fairly well established in some of the more advanced developing countries.

### 3. *Objectives*

154. The common objectives of the partners in a majority of industrial multinational enterprises analysed were limited to those ensuring a reasonable return on the investment. Commercial motivations loomed large in their establishment, for both the host country and the outside investors. When participating in a multinational enterprise, outside investors attempted to safeguard traditional export outlets in countries building up protection for domestic industries, or else they sought new markets for their production of capitals goods, intermediate products or

self-developed technologies. Others sought opportunities for the remunerative investment of surplus funds and yet others wished to secure a raw material base for their domestic processing industries. The motivation of the host country was of a more general nature, i.e. to secure the necessary technology, finance and management capabilities, to create employment and to promote, in general, import-substitution-oriented industrialization. While the developing country investors were sometimes able to offer better terms or service conditions, there was in many cases no major conceptual distinction between the nature of their contribution and that of developed countries' investors.

155. In fact, at present, a number of multinational enterprises among developing countries follow closely the traditional pattern of foreign investment consisting simply of the equity participation of private foreign enterprises engaged in production for the host country's market. Such multinational enterprises are not essentially different from those established by developed countries. However, in certain circumstances, the availability of equity financing from a developing country could conceivably facilitate the separation by the host country of the elements of technology, capital and management frequently combined in a single package in the case of joint ventures with developed countries.

156. A variant of the type of multinational enterprise referred to above involves the provision of both equity and technology by the partner country. The potential advantage of such an arrangement lies in the opportunity for the host country to apply developing countries' technologies as an alternative to technology used in and offered by developed countries.

157. There are only a few examples of multinational enterprises in production that aim to exploit the benefits of economies of scale deriving from the combination of markets, joint research and development or the joint exploitation and processing of basic commodities for export. The major exception is provided by multinational enterprises in the agricultural and energy sectors. But here, as in other infrastructural co-operation projects, where the public sector plays a predominant role, the broad objectives mentioned in paragraph 154 above are generally of secondary importance.

158. The existing type of industrial multinational enterprise has therefore had little impact on the promotion of interdependence among developing countries, nor has it contributed greatly to production for meeting the essential needs of their population.

159. Perhaps the greatest difficulty faced in the formation of multinational enterprises is that action with respect to the various individual phases of the project is of an isolated nature, performed by specialized independent entities. The major gap is the absence of co-ordinated links between these entities and the various operational phases of the project to form a continuous process stretching from the formulation of the project to its implementation and successful operation.

160. These problems are not insuperable, and corrective measures are possible which would permit the adoption of this instrument of economic co-operation among developing countries to the mutual benefit of the partners concerned. Even the serious technological gap could be overcome by resorting to trilateral arrangements between developing countries offering the location for investment, those holding investible liquid capital and those able to furnish technology and management services. At any rate, the separation of the elements of finance, technology and management may improve the possibilities for purchasing the missing elements from developed countries on a contractual basis without the latter being engaged in the multilateral enterprise as full participants. This may be the most appropriate solution, as long as reliance on developed countries' technology is unavoidable.

### C. Measures for encouraging co-operation in production among developing countries

#### 1. *Guidelines for possible action at the national, bilateral, regional or interregional levels*

161. No institutional structure specifically devoted to the systematic promotion of co-operation in the productive sectors among developing countries exists at the global level, and regional efforts in that direction are still at an initial stage. Some *ad hoc* measures have been taken, but they do not yet cover in any systematic manner all links in the chain and all the different aspects of the problem.

162. In the first place, there is a need for the political recognition of the role that multinational enterprises can play as instruments for co-operation in industry, science and technology, transport, shipping and other services. It would then be necessary to define the basic objectives of such co-operation, which would constitute an essential element in the concerted effort towards collective self-reliance. Such an understanding might include the principle of the granting of preferential conditions to multinational enterprises among developing countries vis-à-vis investors from third countries, provided that they complied with common objectives, criteria and operating principles.

163. In some multinational enterprises, equity participation is closely linked to market sharing arrangements, trade preferences or long-term off-take agreements in respect of the finished product. While permitting a more rational operation of the firm on a scale larger than in the national market, this type of arrangement also tends to secure and maintain the interest of the partner importing the final product, even if it is not fully competitive with similar imports from developed countries.

164. In other cases, the processing of complementary raw material resources for exportation to other developing countries or to developed countries is the main feature.

165. A further elaboration of this approach involves a grouping of interrelated multinational enterprises engaged in the extraction and processing of raw materials and their export to the partner country, combined with the setting

up of the necessary transport infrastructure and marketing network.

166. A promising and dynamic field of co-operation is that offered by projects which aim at improving the technological base in developing countries. This may take the form of multinational consultancy firms and research development institutions. Co-operation in this field may extend to other forms of co-operation which do not necessarily involve the setting up of enterprises but rather consist of contractual commitments for the pursuit of specific common technological research objectives.

167. In the above cases, the partnership of interests and objectives is no longer limited to equity participation but rests on complementarity between factors and markets. The essential functions of equity participation (risk-sharing, the long-term commitment to the success of the enterprise, financing) could be separated and replaced by a combination of other common interests. An arrangement combining long-term loan financing, the supply of intermediate inputs and off-take commitments in respect of the finished product might be considered as a viable long-term form of co-operation in production, even if the host country provided all the equity. There is already a perceptible tendency to reduce the equity participation of the partner country, as a result of which in several cases it no longer retains high-level management functions in multinational enterprises in developing countries.

168. In view of the diverse possibilities for the establishment of multinational enterprises among developing countries, it may be inappropriate at the present stage to attempt to prepare model agreements or specific guidelines for intergovernmental agreements on multinational enterprises. At best, certain important elements frequently incorporated in intergovernmental multinational enterprise agreements may be identified, for the purpose of giving more concrete meaning to the principle of preference. These elements would include provisions for equal or preferential market access for raw material inputs, as well as for the finished products of joint ventures. A second element would relate to preferential fiscal investment incentives vis-à-vis those accorded to other foreign investors. A third element would relate to monetary transfer facilities required for the smooth operation of the multinational enterprise. Other elements might define the long-term relationship among the partners, such as the exercise of management control in harmony with the sovereignty of the host country, and eventual "fade-out" provisions under which management and the equity majority would gradually be transferred to the host country within a mutually agreed period.

### 2. *Measures at the national level*

169. Public sector involvement can be of major importance in determining the success of multinational enterprises. Government authorities can play a pivotal role as promoters of the project idea or become partners therein either directly or through the participation of national development finance or other public sector institutions. The participation of the host country of the multinational enterprise on these lines may be particularly desirable.

170. A variety of national institutions can also provide important contributions to the promotion of multinational enterprises. Commercial banking institutions, in both the host country and the partner country, can play an active role by financing working capital in foreign countries, by the provision of guarantees or by the refinancing of export credits, etc. Development finance institutions should take into account the possibilities for co-operation with other developing countries and might set up special units within their organization for that purpose. The governmental agencies would have to disseminate information to other developing countries and the relevant multilateral institutions about the availability of technology, technical assistance capabilities and consultancy services in their countries.

171. A number of specific measures by the governments of partner countries can substantially facilitate the smooth operation of multinational enterprises once they are established. Such facilitating measures may include:

(a) *Provisions on tariff and non-tariff barriers to trade:*

The access of inputs from partner countries for joint processing must be carefully liberalized. If markets are to be shared, the importing countries have to grant free market access to the firm's output. This provision may be reinforced either by an agreed margin of protection vis-à-vis competing third countries or by quantitative off-take guarantees given by the importing countries. In both cases, it is necessary to have a clear understanding in advance concerning prices, quality and standards.

(b) *Foreign-exchange provisions:*

Adjustments in foreign-exchange régimes may be required so as to permit regular transfers of export receipts, interest, dividends, salaries and capital between the participating countries.

(c) *Fiscal incentives:*

Joint ventures which contribute to national development objectives should benefit, on an equal footing with national enterprises, from the fiscal incentives enjoyed by those enterprises in the host country. A case might also be made for granting special preferential status for high-priority industries.

(d) *Management and policy provisions:*

A clear definition of the main long-term operating principles and characteristics of each particular multinational enterprise is necessary. This should include rules regarding day-to-day management and an understanding regarding policy formulation.

### 3. *Measures at the multinational level*

172. An interregional institutional structure for the promotion of co-operation in the productive sectors could

be anchored to the United Nations system, in which UNDP, UNCTAD, the regional commissions, UNIDO and FAO, in their respective fields, would jointly provide the technical apparatus needed to identify and evaluate possibilities and to convene the intergovernmental working or negotiating groups which might be necessary to reach agreements on specific proposals. Regional and subregional development banks should be closely linked up with these efforts.

173. As one of the first steps in the determination of the types of multinational enterprise to be established, it might be advisable to build up inventories of possible multinational projects within each region, such as the one to be carried out for the Arab countries by the Arab Fund for Economic and Social Development with UNDP and UNCTAD support, or the one for infrastructure projects already completed for Latin America by IDB. Both regional and subregional financial institutions, as well as national development banks, should be involved in this effort.

174. Apart from the question of identifying suitable types of enterprise, the implementation of multinational projects presents a problem of proper planning and evaluation, mainly in regard to securing economies of scale. But planning and evaluation in multinational projects are hampered by the fact that the sparse data available in developing countries are usually collected and organized on a national basis and are often incompatible with those available in neighbouring countries. There is a need, therefore, to gather the technological data for multinational project analysis on a regional basis. For each particular sector of production, data on both the specific area involved and the standard elements of the activity under consideration are essential. Although such data might be available in United Nations agencies and financial institutions such as the World Bank, they obviously need to be organized, completed and kept up to date. To meet this need, the United Nations agencies involved and the multinational financial institutions could be instructed to organize one or several data banks.

175. The existing and apparently growing differences among developing countries in levels of development provide a substantial basis for transfers of technology among developing countries themselves. The establishment of a global technology centre or regional and subregional centres, linked to institutions directly responsible for development in the productive sectors, may provide the means through which these possibilities may be realized. Such centres could not only build up and assess inventories of technologies available in developing countries and help to define policies and issues for negotiation with regard to transfers among such countries, but could also promote multinational projects in technological research in the developing countries.

176. Appropriate United Nations agencies and/or regional or subregional financing institutions should help in fostering contacts among industrial enterprises, both public and private, in developing countries that are interested in participating in multinational enterprises with other developing countries. These agencies might sponsor sectoral meetings of potential investors and national investment and development agencies of the countries concerned, with a view to finding suitable partners with respect to technology, finance and management from within the developing countries and their multilateral institutions.

177. To facilitate the preparation and financing of multinational enterprise projects, regional and subregional development banks should give special preference to and earmark non-reimbursable funds for pre-investment activities related to co-operation in the productive sectors. They could also make use of the possibilities provided for in their charters for equity participation in productive enterprises. Where such provisions do not exist, they could establish specialized subsidiaries for that purpose. The activities of IFC could also be intensified and directed towards supporting multinational enterprises among developing countries. Equity financing by such institutions, even if small, could act as a stimulus for other commitments and could make for increased confidence in multinational enterprises.

178. International support action of these various types needs to be designed to permit industrially less advanced countries to participate adequately in this type of co-operation at both the regional and the interregional level. Significant steps towards this objective could include the initiation of special financial arrangements, technical assistance programmes and special concessions comparable to those functioning within integration groupings under which certain investment opportunities and industrial units are reserved to the relatively less advanced partner countries.

## CHAPTER V

## *Financial co-operation among developing countries*

### A. Introduction

179. In the past, financial co-operation among developing countries has taken a variety of forms, the most important of which has been the establishment of regional and subregional development finance institutions to which prospective developing country borrowers have subscribed capital, generally supplemented by resources from outside the region concerned.[42] Other co-operation efforts in the financial field have inevitably been limited to modest and/or short-term monetary arrangements (see chap. IV above) or to arrangements deriving from special relationships,[43] owing to the developing countries' perennial balance-of-payments problems and their inherent desire to import long-term capital rather than to export it.

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[42] There have been a few minor exceptions, however, where developing countries have contributed resources without the expectation of borrowing from the institution concerned, e.g. Brazil's contribution to the African Development Fund, the equity subscription of a Yugoslav consortium in the East African Development Bank and the participation of the Ivory Coast in the Mutual Aid and Loan Guarantee Fund of the Council of the Entente.

[43] E.g. India's development assistance programme in Nepal and the fiscal compensation arrangements of the coastal States of the Central African Customs and Economic Union in favour of the land-locked Central African Republic.

180. The emergence of large payments surpluses in certain OPEC countries has made it possible for the first time to envisage major programmes of financial co-operation among developing countries involving long-term capital flows from these "surplus" countries to capital-deficient developing countries. In view of the deteriorating payments situation of most developing countries, particularly the ones identified as being the most seriously affected, resulting from the combination of rising import prices, the declining demand for their exports and the fall in export prices, the manner in which and the extent to which these "surplus" countries have risen to the challenge deserve examination; by this means, it is possible to evaluate the implementation of the principle of collective self-reliance embodied in the Programme of Action on the Establishment of a New International Economic Order.[44]

181. The present chapter is designed to assemble data showing how the countries members of OPEC in a position to do so have responded to this challenge. Data on financial flows between the countries members of OPEC and other developing countries are not yet being systematically collected on a regular basis. Previous efforts in this direction have relied essentially on press reports and sporadic information from recipient countries. The information contained in the present chapter is extracted from material collected by two UNCTAD consultants in the Arab countries and Venezuela respectively, and by the secretariat itself in Nigeria, supplemented by data provided by the OECD secretariat and the World Bank.[45] Consequently, it is the first detailed compilation based in large part on information provided by donor governments themselves and by the multilateral funds and institutions established by them, most of which are very new.

182. The absence of a comprehensive data-collecting system either within the new donor countries or between them and any international agency precludes any claim being made as to the completeness and total accuracy of the data presented here. Nevertheless, the fact that most of the data were obtained directly from the donor governments concerned should give these tabulations a greater degree of reliability than previous results which were based essentially on press reports and data obtained from recipients. In fact, the receding interest displayed by the press in this subject and the reduction of its coverage make the direct data-collecting method ever more essential.

### B. Problems of definition

183. The framework used here with respect to definition is necessarily looser than that applied by DAC to financial flows from the developed market-economy countries. This is particularly true with respect to commitments, which are recorded as soon as an agreement for a specified amount has been reached in principle, even though a fully binding legal commitment containing specific terms has not been entered into pending the outcome of feasibility studies.

184. In cases where their specific terms were not known, the classification of commitments as between the concessional and the non-concessional was bound to be arbitrary. Where both concessional and non-concessional loans were included in a package commitment, the entire package was classified as concessional. For these reasons, commitments as a whole and their concessional component in particular tend to be over-estimated.

185. Disbursement figures, on the other hand, were recorded only on the basis of confirmed payments, even though scheduled but as yet unconfirmed payments might indicate a higher figure. Consequently, disbursements are likely to be slightly underestimated, particularly with respect to the first half of 1975.

186. The GNP figures for countries members of OPEC as estimated by the World Bank are admittedly subject to a wide margin of error (particularly with regard to the smaller Gulf States), compounded by the effects of the sharp increase in oil prices in 1973. To avoid a false impression of accuracy, financial flows expressed as shares of GNP were rounded off to the nearest full percentage point whenever they exceeded the 1 per cent mark, to the nearest decimal where they were between 0.1 per cent and 1.0 per cent, and to the nearest second decimal where they fell short of 0.1 per cent.

187. Following the definitions used by DAC, the terms "official development assistance" and "concessional" have been applied to loans containing a grant element of 25 per cent or more, based on a discount rate of 10 per cent.

188. The term "developing countries" was defined according to the standard list used by UNCTAD for recipients of development assistance (i.e. developing countries in Asia, Africa and Latin America) together with Malta, Portugal, Spain, Turkey and Yugoslavia, except where otherwise indicated.

189. The inclusion of data on loans to and from the IMF oil facility is intended for informational purposes rather than as a direct expression of financial co-operation among developing countries. This is so because (*a*) the developed market-economy countries (including those of southern Europe) have enjoyed access to this facility and in fact accounted for 58.5 per cent of total drawings as at 31 October 1975, and (*b*) loans to the facility do not diminish the lenders' international liquidity position, inasmuch as they can request repayments on these loans at any time that they indicate a balance-of-payments need to IMF, upon which the latter is committed to "give the overwhelming benefit of any doubt" to the lender's representation.[46]

[44] General Assembly resolution 3202 (S-VI), sect. VII, para. 1.

[45] Mr. R. El Sayed collected the information for all Arab country programmes, as well as for the multilateral institutions created by the Arab and Islamic countries. Mr. J. González del Valle provided the information and evaluation for the Venezuelan programme, while the information on Iran is almost exclusively based on OECD and World Bank data. The detailed data upon which the material in this chapter is based are presented in the report by the secretariat of UNCTAD entitled *Financial solidarity for development: efforts and institutions of the members of OPEC* (United Nations publication, Sales No. E.77.II.D.4).

[46] See IMF, *Annual Report, 1974* (Washington, D.C., 1974), appendix II, p. 126.

190. Coverage in the present chapter extends only to the ten members of OPEC in a position to consider financial co-operation programmes, Indonesia, Ecuador and Gabon thus being excluded. Certain oil-exporting developing countries not members of OPEC (Bahrain, Oman and Trinidad and Tobago) have undertaken isolated measures that could properly have been included, but the financial flows affecting these countries have not been of the same order of magnitude as those affecting the countries members of OPEC.[47]

## C. Volume of flows

### 1. *Commitments*

191. Total commitments multiplied more than fivefold between 1973 and 1974, to a figure approaching $15 billion, divided roughly evenly between bilateral and multilateral commitments (table 5 below). On an annual rate basis, commitments in the first half of 1975 were running at a rate well in excess of $21 billion, with a marked shift toward bilateral commitments (about three quarters). In both 1974 and 1975, commitments were approximately evenly divided between concessional and non-concessional ones.[48] By way of comparison, concessional commitments by countries members of DAC amounted to about $15 billion in 1974, i.e. only twice the level of OPEC commitments of concessional aid, although the GNP of the DAC member States was almost 19 times that of the ten OPEC countries covered by this survey.

192. While these figures are impressive, they must be qualified by several important considerations. First, many commitments are made at the highest political level without necessarily being accompanied by specific projects backed by detailed feasibility studies.[49] Given the strong project orientation of non-concessional commitments, disbursements related to them depend on the preparation and approval of numerous feasibility studies. To the extent that projects are implemented, disbursements are consequently likely to lag many years behind. Secondly, commitments for multi-year programmes are necessarily "lumpy" and tend to inflate commitment values at the outset of a co-operation programme. Thus, the Venezuelan agreement with Central American countries, estimated to be worth nearly $800 million, or the creation of a $500 million trust fund with IDB, call for disbursements over a number of years, but they cannot be expected to be followed by commitments of the same magnitude year after year. Thirdly, for several OPEC countries with large absorptive capacities the large surpluses which accrued to them immediately after the fourfold increase in the price of their main export product are likely to be a passing phenomenon. Consequently, commitments made by these countries during this extraordinary readjustment period cannot be expected to continue at the same level once their surpluses dwindle or turn into deficits. This situation is best illustrated by the case of Iran, which was second only to Saudi Arabia in total commitments during 1974, but which announced a suspension of further commitments early in 1975, pending the re-emergence of payments surpluses.

193. In view of the serious qualifications stated above, the question may be asked whether in future data-collecting efforts stricter criteria ought to be applied for the measurement of commitments, so that predictions may bear a closer relationship to the probable level of disbursements.

### 2. *Disbursements*

194. Concessional flows from OPEC countries to other developing countries and to multilateral institutions, measured in terms of actual disbursements, more than tripled between 1973 and 1974, to a level exceeding $3.4 billion; they continued to flow at this level during the first half of 1975 (see table 3, p. 286). During the entire period, they were overwhelmingly bilateral in character (88 per cent and 87 per cent in 1974 and 1975 respectively). The OPEC flows have become an important factor in the global development assistance effort, not only in absolute terms but also in relation to the donor countries' GNP figures, as can be seen in the following comparison between net official development assistance provided by the countries members of DAC to developing countries[50] and multilateral agencies, and the corresponding concessional disbursements of the OPEC countries.

| | *1973* | | *1974* | |
|---|---|---|---|---|
| | *Million dollars* | *As percentage of GNP* | *Million dollars* | *As percentage of GNP* |
| DAC | 9 375.9 | 0.30 | 11 304.0 | 0.33 |
| OPEC | 1 074.7 | 1.1 | 3 499.8 | 1.9 |
| Total | 10 450.6 | | 14 803.8 | |
| OPEC share (percentage) | 10.3 | | 23.6 | |

195. If the ten OPEC donor countries' performance were to be measured against the target for official development assistance set for developed countries (0.7 per cent of GNP), half would have reached the target in 1973 and all but three would have done so in 1974. During the first half

[47] According to data collected by the World Bank, commitments (C) and disbursements (D) in million dollars by Bahrain, Oman and Trinidad and Tobago were as follows: 1973: C = 7.9, D = 1.5; 1974: C = 144.3, D = 65.9; 1975 (January-June): C = 13.4, D = 6.5.

[48] The classification of commitments as between concessional and non-concessional is subject to a certain margin of error, because the terms of certain commitments are either not spelled out or subject to change before legally binding agreements are signed.

[49] DAC commitments are reported only when the donor undertakes a firm obligation to furnish assistance specified as to volume, purpose, financial terms and conditions. Assuming that disbursements lag two years behing commitments on the average, the fulfilment ratio is close to 100 per cent.

[50] Including flows to southern European recipients.

of 1975, at least five OPEC member countries[51] would have reached the target even if they had made no further disbursements during the second half of the year. In terms of GNP, Qatar stood out as by far the most generous donor, with outflows in excess of 10 per cent of GNP both in 1973 and in 1974. In absolute terms, the leading donors of concessional assistance over the thirty-month period covered in this survey (January 1973 to June 1975) were Kuwait and Saudi Arabia, with disbursements of $1,654 million and $1,479 million respectively. They are followed by the United Arab Emirates, with an outflow of $826 million and the Libyan Arab Republic, Iraq and Qatar, all with aid flows in the vicinity of $500 million. Judged by the 1974 record alone, Saudi Arabia would have ranked fifth within the DAC group of donors, being outranked only by the United States of America, France, the Federal Republic of Germany and Japan, while Kuwait would have occupied the seventh place among the 17 members of DAC.

196. Non-concessional flows from the OPEC countries to developing countries and multilateral agencies increased to an even greater extent between 1973 and 1974, namely, from $0.4 to $3.6 billion, and the rate was still higher in the first half of 1975 (see table 4 below). In contrast to the concessional flows, these flows were largely multilateral. In 1974, more than half of the non-concessional flows were in the form of loans to the IMF oil facility, and during the first half of 1975 the facility still absorbed almost 40 per cent of these flows.[52] Of the remainder, purchases of IBRD bonds absorbed 80 per cent ($1,419 million in 1974, and 45 per cent ($725 million) during the first half of 1975.

197. Considering bilateral flows only, Kuwait alone accounted for more than 80 per cent of the entire OPEC flow in 1974 and the first half of 1975. Kuwaiti non-concessional outflows in 1974 included several equity investments in joint financial ventures, bond purchases and deposits by the Kuwait Central Bank in the central banks of several African countries. The relatively large flow in 1975 is accounted for mainly by Kuwait central bank deposits in the Egyptian central and commercial banks ($660 million) and the Venezuelan bilateral oil arrangements with Central American countries ($86 million).

198. In 1974, non-concessional OPEC flows and what are known as "other official flows" from DAC countries were of a similar order of magnitude, as is shown by the following figures:

| | *1973* | *1974* |
|---|---|---|
| | *(Million dollars)* | |
| DAC, other official flows | 2 463 | 2 118 |
| OPEC | 404 | 1 777* |

* Excluding loans to the IMF oil facility, which are also excluded from DAC tabulations.

It must be noted that DAC flows are net of amortization costs, while the bilateral portion of OPEC flows is on a gross basis. In practice, this distinction is not very significant, except for the repayments made to the Kuwait Fund for Arab Economic Development, which amounted to only KD 14.3 million ($48.2 million) during the three fiscal years ending 31 May 1975.

199. The picture emerging from a comparison of total official flows emanating from OPEC to other developing countries and multilateral agencies (table 5 below) with total official DAC flows (official development assistance and other official flows) is as follows:

| | *1973* | *1974* |
|---|---|---|
| | *(Million dollars)* | |
| DAC | 11 839 | 13 422 |
| OPEC | 1 478 | 5 277* |
| Total | 13 317 | 18 699 |
| OPEC share (percentage) | 11.1 | 28.2 |

* Excluding loans to the IMF oil facility, which are also excluded from DAC tabulations.

200. While OPEC flows now constitute a major segment within the total flow of resources going to developing countries and multilateral agencies, they must also be measured against the severe deterioration in the balances of payments of the non-oil-exporting developing countries, whose combined current account deficit rose from $11,315 million in 1973 to $32,106 in 1974, a deterioration of more than $20 billion,[53] of which as much as $12 billion was accounted for by the increase in oil prices.[54] Although OPEC contributed the bulk of the increase in the flow of long-term financial resources to developing countries between 1973 and 1974,[55] the increased bilateral flow plus the increased flow to multilateral agencies from OPEC covered less than 30 per cent of the additional financing requirements of the oil-importing developing countries in 1974.

201. The question might therefore be raised as to the possibilities for recycling a larger portion of OPEC surpluses to the oil-importing developing countries, so as to help them to overcome their growing payments problems. Ways might be explored for OPEC countries to undertake to cover in full or in part the increased oil bill of the oil-importing developing countries on a non-concessional but long-term basis (as illustrated by the Venezuelan agreement with Central American countries and the Iranian oil credits to India and Pakistan), while the international community as a whole meets the interest subsidy cost of such a plan.

[51] Kuwait, the Libyan Arab Republic, Qatar, Saudi Arabia and the United Arab Emirates, which are commonly identified as the member countries of OPEC with the strongest medium-term surplus potential.

[52] It is worth noting that loans to the IMF oil facility do not reduce creditors countries' liquidity to any great extent, and proceeds from it are not earmarked exclusively for developing countries.

[53] See the report by the UNCTAD secretariat entitled "International financial co-operation for development: past performance and future requirements" (TD/B/C.3/126 and Corr.1), table 3.

[54] See the report by the UNCTAD secretariat entitled "Financial flows to and from developing countries: recent developments" (TD/B/C.3/125), para. 28, foot-note 12.

[55] See "International financial co-operation for development..." (TD/B/C.3/126 and Corr.1), para. 33.

## D. The geographical distribution of OPEC flows

### 1. *Concessional bilateral flows*

202. The distribution of bilateral concessional flows (see table 6) shows a marked extension of range between 1973 and 1974 in favour of non-Arab recipients as compared with Arab recipients. This trend was apparent in 1974 with regard to both commitments and disbursements, and it continued into 1975 with regard to the former, promising a continuation of the trend towards the diversification of disbursements also.[56] The trend is largely the reflection of new commitments and disbursements to the three countries of the Indian sub-continent, whose share of commitments rose from 4.2 per cent in 1973 to 18.5 per cent in 1974 and whose share of disbursements rose from 3.2 per cent in 1973 to 16.5 per cent in 1974.

203. Nevertheless, the concentration on Arab recipients in bilateral concessional flows is still considerable. In absolute terms, total flows of bilateral concessional disbursements to non-Arab countries were less than $650 million in 1974 and less than $300 million during the first half of 1975.[57] This helps to explain why only about three-fifths of these flows go to the most seriously affected countries,[58] of which Egypt alone accounted for over one-half in 1974 and for as much as 58 per cent during the first half of 1975, as shown in the table below. In fact, only 24 out of the 42 most seriously affected countries received any bilateral concessional disbursements from OPEC donors during the period under review.

[56] The fact that the figures for reported disbursements show an unchanged Arab share for the first half of 1975 is not necessarily a true reflection of the underlying trend, given the likelihood of as yet unreported disbursements to India, the major non-Arab recipient in 1974.

[57] By way of comparison, Oman, an oil-exporting country and itself a minor donor, with a population of less than one million, received $123 million in 1974 and $52 million in the first half of 1975.

[58] As identified in the list of the Secretary-General of the United Nations of 1 May 1975 in his report entitled "United Nations Emergency Operation" (A/10201), table A.

### 2. *Non-concessional bilateral flows*

204. Non-concessional bilateral flows were much smaller and more variable than concessional ones, particularly with regard to disbursements,[59] making the identification of a trend very hazardous, as can be seen from the table opposite. While both commitments[60] and disbursements seem to show a marked diversification in favour of non-Arab countries, the disbursement figure for the first half of 1975 is only marginally below the 1973 one. The Arab countries' share of both commitments and disbursements was generally lower than their share of concessional flows.

205. The share of the most seriously affected countries regarding commitments rose somewhat in 1974, but appears to have declined in the first half of 1975. Disbursements to the group of most seriously affected countries as a whole showed no clear trend but, excluding disbursements to Egypt, they were running at annual rates of between $70 million and $80 million in 1974 and in 1975, as compared with about $30 million in 1973.

### 3. *Multilateral flows*

206. Disbursements by five multilateral funds and institutions, all but one of which (the Arab Fund for Economic and Social Development) were set up to help crisis-affected countries and which are largely or exclusively financed by OPEC countries, are shown in table 10 below.[61] For the period from January 1973 to June 1975, these disbursements do not show a marked concentration in

[59] Kuwaiti deposits of $600 million with the Central Bank of Egypt early in 1975 largely accounted for the manifold increase in disbursements in 1975.

[60] Certain important Iranian commitments to Afghanistan and Egypt classified herein as concessional may contain non-concessional elements. In that case, the figures would show a higher share for the most seriously affected countries as a whole.

[61] Disbursements by the World Bank are not included in the table, since OPEC financial flows to that institution ($2,438 million during the period covered) do not yet constitute the bulk of that institution's loanable financial resources.

**Share of OPEC concessional bilateral flows going to Arab countries and to the most seriously affected countries**

*(Percentages)*

C = Commitments
D = Disbursements

| | *1973* | | *1974* | | *1975 (Jan.-June)* | |
|---|---|---|---|---|---|---|
| | *C* | *D* | *C* | *D* | *C* | *D* |
| Arab countries | 94.0 | 94.9 | 76.1 | 74.9 | 57.8 | 82.7 |
| The most seriously affected countries | 76.7 | 60.7 | 73.4 | 60.8 | 71.8 | 64.2 |
| The most seriously affected countries, excluding Egypt | 11.3 | 8.6 | 28.7 | 32.6 | 42.0 | 23.0 |

*Source:* Table 6 below.

Share of OPEC non-concessional bilateral flows going to Arab countries and to the most seriously affected countries

*(Percentages)*

C = Commitments
D = Disbursements

| | *1973* | | *1974* | | *1975 (Jan.-June)* | |
|---|---|---|---|---|---|---|
| | *C* | *D* | *C* | *D* | *C* | *D* |
| Arab countries .................. | 79.9 | 81.7 | 63.9 | 40.9 | 44.9 | 68.2 |
| The most seriously affected countries | 68.0 | 50.7 | 65.3 | 26.8 | 50.4 | 76.0 |
| The most seriously affected countries, excluding Egypt .............. | 21.0 | 28.2 | 14.7 | 21.9 | 15.5 | 8.1 |

*Source:* Table 7 below.

favour of Arab countries (9.1 per cent), even though both AFESD and OAPEC-SAAPIC operate exclusively in Arab countries by virtue of their charter or constitutive agreement. The proportion of disbursements directed to the most seriously affected group of countries (62.7 per cent) was marginally lower than in the case of total bilateral disbursements (64.1 per cent). This was essentially due to the part played by the IMF oil facility, which directed less than 60 per cent of all drawings by non-European developing countries to the most seriously affected group. The United Nations Special Account, on the other hand, disbursed all its modest resources to that group, while nearly 90 per cent of the disbursements of OAPEC-SAAPIC was directed to the same group.

4. *Policies for the diversification of flows*

207. The concentration of bilateral assistance on small groups of favoured recipients has been a common phenomenon among both old and new donors.[62] In the past, the use of multilateral channels tended to reduce the degree of concentration and to increase the importance of economic criteria in the distribution of financial flows. The use of this approach can be achieved through direct support for existing multilateral institutions, the establishment of trust funds to be administered by them or the creation of *ad hoc* or permanent funds or institutions.

208. To the extent that the new OPEC donors wish to maintain the bilateral character of their flows, a greater degree of co-ordination among them might achieve results more consistent with their own collective objectives concerning the distribution of resources.

## E. Terms applying to financial flows

209. Owing to the incompleteness of the information available concerning the exact terms of many commitments made by OPEC countries, it has not been possible to calculate the over-all grant element in each donor's financial co-operation programme. However, a general impression of the relative "softness" of each donor's programme may be gained by comparing the proportion of concessional commitments and disbursements to total flows (table 11).

210. For the OPEC donors as a group, the share of concessional commitments declined in 1973 and 1974, but rose marginally during the first half of 1975, while the share of OPEC concessional disbursements continued its downward trend into 1975.

211. A comparison between individual donors shows that Algeria and Iraq have consistently made virtually all their commitments in concessional form, while the concessional portion of the programmes of Iran,[63] Qatar, Saudi Arabia and the United Arab Emirates all increased beyond 90 per cent in the first half of 1975. Venezuela's programme, on the other hand, shows a change from an all-concessional to an almost exclusively non-concessional approach. Kuwait, the Libyan Arab Republic and Nigeria occupy intermediate positions between those extremes.

212. In respect of most donors, disbursements show a trend similar to that of commitments. The financial flows from Algeria, Iraq and Qatar have been disbursed almost exclusively in concessional form, followed closely by those from the United Arab Emirates. Iranian disbursements have shifted towards a larger concessional component. On the other hand, there have been marked movements in the opposite direction in the cases of Nigeria, Saudi Arabia and Venezuela, while Kuwaiti and Libyan disbursements have shown no obvious trend in this respect.

## F. Multilateral channels for financial co-operation

213. The preponderant use of bilateral channels for directing the OPEC countries' concessional aid flows to other developing countries (88 per cent in 1974) resembles the pattern set by the DAC countries, which still channelled as much as 73 per cent of their official development assistance bilaterally in 1974, and had channelled more

[62] Thus, 39 countries having a special relationship with particular DAC countries received 28 per cent of all official development assistance commitments between 1969 and 1972, even though they account for only 3 per cent of the population of all developing countries (OECD, *Development Co-operation: 1974 Review* (Paris, 1974) p. 167).

[63] The breakdown between Iranian concessional and non-concessional commitments is uncertain.

than 80 per cent bilaterally as late as 1971. Nevertheless, the smaller donors have recognized the inefficiency inherent in running modest national development assistance programmes with large overheads, as compared with the economies than can be realized by using the services of existing and experienced multilateral financial institutions.[64]

214. Certain OPEC countries hesitate to use existing multilateral institutions for administering their concessional assistance because of the loss of control over the use of funds that this might imply. This concern has been one of the main reasons why certain new OPEC donors have recently set up national institutions for economic development co-operation (e.g. Iraq, Saudi Arabia and Venezuela), following the example of older OPEC donors (Kuwait and Abu Dhabi). It also helps to explain the creation of new and at least partly overlapping multilateral development finance institutions (the Arab Bank for Economic Development in Africa, the Islamic Development Bank), quite apart from a number of inter-Arab financial joint ventures (e.g. the Arab Investment Company, the Arab Petroleum Investment Company, the Arab Bank for Investment and Foreign Trade). So far, only Nigeria and Venezuela have opted for the intermediate solution of establishing independently-administered trust funds with existing institutions. Nigeria has announced the intention of creating an interest-free $80 million African Solidarity Fund to be administered by the African Development Bank, while Venezuela has established a $500 million Fund for Latin American Development with IDB, although this is on non-concessional terms. This formula has the advantage of (*a*) generating projects more rapidly than is possible for newly-created national or multilateral institutions,[65] (*b*) ensuring that ultimate control over the use of the trust fund remains in the hands of the trustor, and (*c*) avoiding the expense and delays involved in the creation of separate national or multilateral development finance institutions. Moreover, the existence of a trust fund with specified and independent objectives is likely to influence the trustee's over-all policies. Thus, IDB is now in a position to use the Venezuelan trust fund's resources in order to refinance export credits covering exports of goods other than capital goods and exports directed to markets outside Latin America. IDB has accordingly been able to implement within a short period the extension of its pre-existing export credit refinancing scheme, a step which has been under consideration by the Bank for several years. Similar trust funds placed by other OPEC donors with other major multilateral financial institutions might well encourage those institutions to reconsider sympathetically the launching or expansion of schemes and initiatives proposed by developing countries but so far rejected on the grounds of their alleged non-viability. Although initially the financing for such schemes might come exclusively from the trust fund, their eventual viability would undoubtedly help to overcome reservations that have impeded the launching of these schemes with the institution's own funds. In this way, trust funds established by OPEC countries with existing institutions could act as powerful catalysts for the mobilization of international resources in a manner consistent with the needs of developing countries as they themselves see them.

[64] In 1972 and 1973, Austria, Denmark, Norway, Sweden and Switzerland channelled 45 per cent or more of their official development assistance through multilateral institutions.

[65] The Venezuelan Trust Fund extended loans worth $18 million within four months of its establishment.

### G. Specific policy considerations

#### 1. *Programme-type policies*

215. The probable slowness with which project-type aid can be implemented makes the consideration of programme-type aid policies increasingly urgent as the payments problems of several developing countries become more intractable.

216. One possibility in this connexion is the method already applied by Kuwait, which consists in the placement of central bank deposits with the central and commercial banks of other developing countries at quasi-commercial rates. From the depositor's point of view, this method offers several advantages; it not only helps to reduce the political and economic risks involved in the traditional concentration of reserve placements in a few central reserve countries, but it could in fact be so employed[66] as to reduce the exchange risks that have been such a striking feature of placements in certain traditional reserve centres in recent years.

217. Another policy approach worth pursuing further is that of the guarantee given by the Saudi Arabian Monetary Authority to a $200 million bond issue placed by the Sudanese Government on the Euro-bond market. This support assured the Sudan access to an important capital market which might otherwise have been closed to it, but did not involve any direct outflow of resources from Saudi Arabia to the Sudan. In this manner, the high credit standing of certain OPEC countries could be used to mobilize issues worth many times the amount of reserves required to guarantee them.

#### 2. *Project-type policies*

218. The scarcity of equity financing for joint ventures could be met by appropriate changes in the articles of agreement of certain new multilateral financial institutions, which are currently limited to loan financing, or by the creation of special associated funds along the lines of IFC, established by the World Bank for that very purpose.

219. The procurement policies of the new donors might be adapted to the productive capacities of recipient or other developing countries. Thus, the Abu Dhabi Fund for Arab Economic Development gives procurement in the recipient countries a 10 per cent margin over procurements

[66] For example, by the denomination of such placements in SDRs, other currency baskets, the depositor's currency or any combination of these.

made elsewhere. Similar policies might be adopted by other OPEC donors. Moreover, margins of preference might also be accorded to procurements in other developing countries of the same region or elsewhere.

## H. General policy considerations

### 1. *International guarantee facilities*

220. The countries members of OPEC regard their payments surpluses as a capital stock deriving from a non-renewable natural resource, which must be preserved and wisely invested at home and abroad against the time when their principal exchange earner – oil – is depleted. For this reason, they regard these liquid assets as being fundamentally different from surpluses derived from net exports of renewable goods and services by industrialized countries and resulting from restrictive monetary and fiscal policies as compared with those of their trading partners.

221. In view of such considerations, the countries members of OPEC are wary about the placing of a major portion of their investments directly in other developing countries (in contrast to capital flows passing through the financial markets of the developed countries), given the relatively larger risk factor inherent in investments in developing countries. This reticence could be greatly allayed if such investments could be bolstered by an international guarantee facility, which would spread the non-commercial risk of these investments as widely as possible, i.e. among developed countries and multilateral financial agencies, as well as developing countries having investible surpluses themselves.

222. Such a guarantee facility would embody obvious advantages for the three major groups of countries concerned. The capital-importing developing countries would be able to count on a larger, more regular and less onerous flow of capital than they are able to obtain via the Euro-currency and other financial markets. The capital-exporting developing countries would be able to spread their investment portfolio both geographically and sectorally as compared with the limited possibilities offered by the financial markets, and the political risk involved for those countries in direct investments and take-overs in the developed countries would be reduced. The developed countries would be stimulating a capital flow which would serve to finance their exports to the recipient countries. Perhaps less obviously, the developed countries would merely be institutionalizing and sharing more evenly a risk burden that they are already assuming when their financial markets use short-term OPEC funds to finance essentially long-term capital needs of the oil-importing developing countries.

223. Since such a guarantee facility would essentially support capital investments seeking commercial rates of return, the mounting debt-servicing problem facing developing countries as a group (and afflicting individual ones most acutely) would not be solved by such a facility in the immediate future. Awareness of this problem has prompted both the World Bank and IMF to institute interest-subsidization facilities in connexion with the "third window" and the oil facility respectively, an idea discussed within UNCTAD from its very outset. The grave debt situation facing many developing countries, combined with the new initiatives in the two major global financial institutions, may make renewed consideration of a multilateral interest subsidization scheme in connexion with OPEC capital flows appropriate at this time.

### 2. *Co-ordination of development assistance policies*

224. The new bilateral and multilateral aid programmes and institutions share a predilection for project-type assistance, but also share the problems of generating, preparing and evaluating a sufficient number of projects that are large enough to absorb the available financial resources. While this problem has already plagued the older, relatively well-staffed financial institutions, it is even more pronounced for the newer ones, which are almost uniformly deficient in technically-qualified staff. The large number of new bilateral and multilateral finance institutions all seeking projects worthy of support might consider a policy involving greater co-ordination both among themselves and with older institutions pursuing similar objectives. Such co-ordination might involve a continuing exchange of information on viable projects and common project evaluation procedures. To this end, a central data bank of projects having passed the pre-feasibility study stage could be created by these institutions, to which all would have equal access.

225. There is at present no multilateral forum through which all new donors co-ordinate their development assistance efforts with each other[67] and with the new multilateral financial agencies which they have themselves established. The new donors have no common guidelines for their respective aid efforts, either globally or with respect to the individual recipients' eligibility for concessional finance; they have no common or agreed criteria for the geographical or sectoral distribution of such aid, and there is no exchange of information concerning their borrowers' over-all debt position. An aid co-ordination effort could start with the establishment of a centralized, regular and systematic data collection scheme covering all public and semi-public financial flows to other developing countries, as well as to and from global and regional financial institutions. As a global agency in which all new donors and all recipients are full members, UNCTAD could render such a service and provide the forum for regular aid co-ordination consultations, exactly as OECD does for developed market-economy country donors.

[67] A start has been made in this direction by the Kuwait Fund for Arab Economic Development, the Arab Fund for Economic and Social Development and the Abu Dhabi Fund for Arab Economic Developmnt, which hold regular consultations every four months.

TA[B]

**OPEC concessional financial flows to developing coun[tries]**

*(Mil[lions])*

| Donor | Commitments: Bilateral 1973 | Bilateral 1974 | Bilateral 1975 January-June | Multilateral 1973 | Multilateral 1974 | Multilateral 1975 January-June | Total 1973 | Total 1974 | Total 19[75] Janu[ary-] Ju[ne] |
|---|---|---|---|---|---|---|---|---|---|
| Algeria | 21.57 | 6.56 | .. | 20.60 | 127.70 | .. | 42.17 | 134.26 | .. |
| Iran | 10.40 | 1836.00 | 1638.40 | | 20.00 | 4.40 | 10.40 | 1856.00 | 1642. |
| Iraq | 112.50 | 447.32 | 318.17 | 37.60 | 48.60 | 0.50 | 150.10 | 495.92 | 318. |
| Kuwait | 365.60 | 748.62 | 935.50 | 20.90 | 240.30 | 2.00 | 386.50 | 988.92 | 937. |
| Libyan Arab Republic | 775.91 | 133.25 | 61.45 | 1.10 | 264.00 | – | 777.01 | 397.25 | 61. |
| Nigeria | 4.30 | 5.30 | .. | 2.00 | 16.90 | 81.30 | 6.30 | 22.20 | 81. |
| Qatar | 93.72 | 208.43 | 161.20 | 20.30 | 55.20 | – | 114.02 | 263.63 | 161. |
| Saudi Arabia | 510.70 | 1657.13 | 1862.77 | 50.70 | 452.00 | 28.50 | 561.40 | 2109.13 | 1891. |
| United Arab Emirates | 107.97 | 601.96 | 735.76 | 0.50 | 202.50 | 3.50 | 108.47 | 804.46 | 739. |
| Venezuela | – | 20.00 | .. | 1.00 | 81.00 | 1.50 | 1.00 | 101.00 | 1. |
| Total | 2002.67 | 5664.57 | 5713.25 | 154.70 | 1508.20 | 121.70 | 2157.37 | 7172.77 | 5834. |

TA[B]

**OPEC non-concessional financial flows to developing coun[tries]**

*(Mil[lions])*

| Donor | Commitments: Bilateral 1973 | Bilateral 1974 | Bilateral 1975 January-June | Multilateral 1973 | Multilateral 1974 | Multilateral 1975 January-June | Total 1973 | Total 1974 | Total 197[5] Janu[ary-] Ju[ne] |
|---|---|---|---|---|---|---|---|---|---|
| Algeria | .. | .. | .. | .. | .. | .. | .. | .. | .. |
| Iran | .. | .. | 407.00 | 3.00 | 1073.90 | 527.70 | 3.00 | 1073.90 | 934. |
| Excluding IMF oil facility | .. | .. | .. | 3.00 | 363.80 | 13.80 | 3.00 | 363.80 | 420. |
| Iraq | – | 45.00 | – | .. | .. | .. | – | 45.00 | – |
| Kuwait | 111.98 | 308.21 | 1611.39 | 166.80 | 701.70 | 241.00 | 278.78 | 1009.91 | 1852. |
| Excluding IMF oil facility | .. | .. | .. | 166.80 | 221.70 | 1.00 | 278.78 | 529.91 | 1612. |
| Libyan Arab Republic | 120.54 | 161.89 | 227.00 | 106.30 | 6.50 | 9.20 | 226.84 | 168.39 | 236. |
| Nigeria | .. | .. | .. | 1.10 | 359.50 | 272.50 | 1.10 | 359.50 | 272. |
| Excluding IMF oil facility | .. | .. | .. | 1.10 | 239.50 | 32.50 | 1.10 | 239.50 | 32. |
| Qatar | 20.00 | 88.92 | .. | .. | .. | .. | 20.00 | 88.92 | .. |
| Saudi Arabia | 86.20 | 525.50 | .. | 15.00 | 2113.30 | 1251.60 | 101.20 | 2638.80 | 1251. |
| Excluding IMF oil facility | .. | .. | .. | 15.00 | 913.30 | 51.60 | 101.20 | 1438.80 | 51. |
| United Arab Emirates | 11.97 | 111.23 | 81.12 | 2.50 | 242.20 | 0.50 | 14.47 | 353.43 | 81. |
| Excluding IMF oil facility | .. | .. | .. | 2.50 | 122.20 | 0.50 | 14.47 | 233.43 | 81. |
| Venezuela | .. | .. | 792.20 | – | 1086.60 | 749.20 | – | 1086.60 | 1541. |
| Excluding IMF oil facility | .. | .. | .. | – | 546.60 | 509.20 | – | 546.60 | 1301. |
| Total | 350.69 | 1240.75 | 3118.71 | 294.70 | 5583.70 | 3051.70 | 645.39 | 6824.45 | 6170. |
| Excluding IMF oil facility | .. | .. | .. | 294.70 | 2413.60 | 617.80 | 645.39 | 3654.35 | 3736. |

d multilateral institutions, January 1973-June 1975

*llars)*

| Bilateral 973 | Bilateral 1974 | Bilateral 1975 January-June | Multilateral 1973 | Multilateral 1974 | Multilateral 1975 January-June | Total Amount 1973 | Total Amount 1974 | Total Amount 1975 January-June | As percentage of GNP 1973 | As percentage of GNP 1974 | As percentage of Government oil revenue 1973 | As percentage of Government oil revenue 1974 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| 21.57 | 5.15 | .. | 0.60 | 20.40 | .. | 22.17 | 25.55 | .. | 0.3 | 0.2 | 2.0 | 0.6 |
| 0.40 | 427.70 | 262.70 | | 20.00 | .. | 0.40 | 447.70 | 262.70 | | 1.0 | 0.01 | 2.1 |
| 3.00 | 389.32 | 6.00 | 0.70 | 78.60 | 7.50 | 3.70 | 467.92 | 13.50 | 0.06 | 4 | 0.3 | 6.9 |
| 37.60 | 582.60 | 637.90 | 0.90 | 66.30 | 29.00 | 338.50 | 648.90 | 666.90 | 5 | 3 | 15.9 | 7.4 |
| 34.19 | 120.00 | 81.45 | 1.10 | 43.90 | 44 30 | 235.29 | 163.90 | 125.75 | 4 | 1 | 10.6 | 2.4 |
| 4.30 | 0.90 | .. | 1.20 | 9.10 | .. | 5.50 | 10.00 | .. | 0.04 | 0.04 | 0.3 | 0.1 |
| 93.72 | 208.43 | 161.20 | 0.30 | 15.70 | 5.00 | 94.02 | 224.13 | 166.20 | 16 | 11 | 26.1 | 11.8 |
| 90.40 | 879.69 | 121.50 | 0.70 | 88.40 | 98.00 | 291.10 | 968.09 | 219.50 | 3 | 3 | 5.9 | 3.1 |
| 82.48 | 457.16 | 242.05 | 0.50 | 40.50 | 3.00 | 82.98 | 497.66 | 245.05 | 3 | 7 | 8.0 | 7.24 |
| – | 15.00 | .. | 1.00 | 31.00 | 23.40 | 1.00 | 46.00 | 23.40 | 0.01 | 0.3 | 0.04 | 0.5 |
| 67.66 | 3085.95 | 1512.80 | 7.00 | 413.90 | 210.20 | 1074.66 | 3499.85 | 1723.00 | 1.1 | 1.9 | 4.9 | 3.3 |

d multilateral institutions, January 1973-June 1975

*·llars)*

| Bilateral 973 | Bilateral 1974 | Bilateral 1975 January-June | Multilateral 1973 | Multilateral 1974 | Multilateral 1975 January-June | Total Amount 1973 | Total Amount 1974 | Total Amount 1975 January-June | As percentage of GNP 1973 | As percentage of GNP 1974 | As percentage of oil exports 1973 | As percentage of oil exports 1974 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| .. | .. | .. | .. | .. | .. | | .. | .. | | | | |
| .. | .. | 140.00 | 3.00 | 746.70 | 242.70 | 3.00 | 746.70 | 382.70 | 0.01 | 2 | 0.08 | 3.6 |
| .. | .. | .. | 3.00 | 288.80 | 88.80 | 3.00 | 288.80 | 228.80 | 0.01 | 0.7 | 0.08 | 1.4 |
| .. | .. | .. | .. | .. | .. | n.a. | n.a. | .. | | | | |
| 25.43 | 268.65 | 696.38 | 166.80 | 285.70 | 156.60 | 192.23 | 554.35 | 852.98 | 3 | 3 | 9.0 | 6.3 |
| .. | .. | .. | 166.80 | 10.20 | 1.00 | 192.23 | 278.85 | 697.38 | 3 | 1 | 9.0 | 3.2 |
| 33.46 | 38.35 | 53.00 | 106.30 | 4.00 | 9.20 | 189.76 | 42.35 | 62.20 | 3 | 0.4 | 8.6 | 0.6 |
| .. | .. | .. | 1.10 | 119.50 | 271.50 | 1.10 | 119.50 | 271.50 | 0.01 | 0.5 | 0.06 | 1.4 |
| .. | .. | .. | 1.10 | 119.50 | 147.50 | 1.10 | 119.50 | 147.50 | 0.01 | 0.5 | 0.06 | 1.4 |
| .. | 10.51 | .. | .. | .. | .. | .. | 10.51 | .. | – | 0.5 | | 0.6 |
| .. | 15.00 | .. | 15.00 | 1226.30 | 801.40 | 15.00 | 1241.30 | 801.40 | 0.1 | 4 | 0.3 | 4.0 |
| .. | .. | .. | 15.00 | 538.30 | 393.40 | 15.00 | 553.30 | 393.40 | 0.1 | 2 | 0.3 | 1.8 |
| n.a. | n.a. | n.a. | 2.50 | 157.10 | 34.60 | 2.50 | 157.10 | 34.60 | 0.1 | 2 | 0.2 | 2.3 |
| n.a. | n.a. | n.a. | 2.50 | 79.00 | 10.60 | 2.50 | 79.00 | 10.60 | 0.1 | 1 | 0.2 | 1.1 |
| .. | .. | 85.90 | – | 712.60 | 384.20 | – | 712.60 | 470.10 | – | 4 | – | 7.3 |
| .. | .. | .. | – | 404.60 | 199.20 | – | 404.60 | 285.10 | – | 2 | – | 4.1 |
| 98.89 | 332.51 | 975.28 | 294.90 | 3251.90 | 1900.20 | 403.59 | 3584.41 | 2875.48 | 0.4 | 1.9 | 1.8 | 3.4 |
| .. | .. | .. | 294.70 | 1444.40 | 849.70 | 403.59 | 1776.91 | 1824.98 | 0.4 | 1.0 | 1.8 | 1.7 |

TAI

OPEC concessional and non-concessional flows to developing count

(Mil

| Donor | Commitments: Bilateral 1973 | Bilateral 1974 | Bilateral 1975 January-June | Multilateral 1973 | Multilateral 1974 | Multilateral 1975 January-June | Total 1973 | Total 1974 | Total 197: Januai Juni |
|---|---|---|---|---|---|---|---|---|---|
| Algeria | 21.57 | 6.56 | | 20.60 | 127.70 | | 42.17 | 134.26 | |
| Iran | 10.40 | 1836.00 | 2045.40 | 3.00 | 1093.90 | 532.10 | 13.40 | 2929.90 | 2577 |
| Excluding IMF oil facility | | | | 3.00 | 383.80 | 18.20 | 13.40 | 2219.80 | 2063 |
| Iraq | 112.50 | 492.32 | 318.17 | 37.60 | 48.60 | 0.50 | 150.10 | 540.92 | 318 |
| Kuwait | 477.58 | 1056.83 | 2546.89 | 187.70 | 942.00 | 243.00 | 665.28 | 1998.83 | 2789 |
| Excluding IMF oil facility | | | | 187.70 | 462.00 | 3.00 | 665.28 | 1518.83 | 2549 |
| Libyan Arab Republic | 896.45 | 295.14 | 288.45 | 107.40 | 270.50 | 9.20 | 1003.85 | 565.64 | 297 |
| Nigeria | 4.30 | 5.30 | | 3.10 | 376.40 | 353.80 | 7.40 | 381.70 | 353 |
| Excluding IMF oil facility | | | | 3.10 | 256.40 | 113.80 | 7.40 | 261.70 | 113 |
| Qatar | 113.72 | 297.35 | 161.20 | 20.30 | 55.20 | – | 134.02 | 352.55 | 161 |
| Excluding IMF oil facility | | | | | | | | | |
| Saudi Arabia | 596.90 | 2182.63 | 1862.77 | 65.70 | 2565.30 | 1280.10 | 662.60 | 4747.93 | 3142 |
| Excluding IMF oil facility | | | | 65.70 | 1365.30 | 80.10 | 662.60 | 3547.93 | 1942 |
| United Arab Emirates | 119.94 | 713.19 | 816.88 | 3.00 | 444.70 | 4.00 | 122.94 | 1157.89 | 820 |
| Excluding IMF oil facility | | | | 3.00 | 324.70 | 4.00 | 122.94 | 1037.89 | 820 |
| Venezuela | – | 20.00 | 792.20 | 1.00 | 1167.60 | 750.70 | 1.00 | 1187.60 | 1542 |
| Excluding IMF oil facility | | | | 1.00 | 627.60 | 510.70 | 1.00 | 647.60 | 1302 |
| Total | 2353.36 | 6905.32 | 8831.96 | 449.40 | 7091.90 | 3173.40 | 2802.76 | 13997.72 | 12005 |
| Excluding IMF oil facility | | | | 449.40 | 3921.80 | 739.50 | 2802.76 | 10827.12 | 9571 |

5

**and multilateral institutions, January 1973-June 1975**

*dollars)*

| Disbursements | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | | | | Total | | | | | | |
| Bilateral | | | Multilateral | | | Amount | | | As percentage of GNP | | As percentage of Government oil revenue | |
| 1973 | 1974 | 1975 January-June | 1973 | 1974 | 1975 January-June | 1973 | 1974 | 1975 January-June | 1973 | 1974 | 1973 | 1974 |
| 21.57 | 5.15 | | 0.60 | 20.40 | | 22.17 | 25.55 | | 0.3 | 0.2 | 2.0 | 0.6 |
| 0.40 | 427.70 | 402.70 | 3.00 | 766.70 | 242.70 | 3.40 | 1194.40 | 645.40 | 0.01 | 3 | 0.09 | 5.7 |
| | | | 3.00 | 308.80 | 88.80 | 3.40 | 736.50 | 491.50 | 0.01 | 2 | 0.09 | 3.5 |
| 3.00 | 389.32 | 6.00 | 0.70 | 78.60 | 7.50 | 3.70 | 467.92 | 13.50 | 0.06 | 4 | 0.3 | 6.9 |
| 363.03 | 851.25 | 1334.28 | 167.70 | 352.00 | 185.60 | 530.73 | 1203.25 | 1519.88 | 7 | 6 | 24.9 | 13.7 |
| | | | 167.70 | 76.50 | 30.00 | 530.73 | 927.75 | 1364.28 | 7 | 5 | 24.9 | 10.5 |
| 317.65 | 158.35 | 134.45 | 107.40 | 47.90 | 53.50 | 425.05 | 206.25 | 187.95 | 7 | 2 | 19.2 | 3.0 |
| 4.30 | 0.90 | | 2.30 | 128.60 | 271.50 | 6.60 | 129.50 | 271.50 | 0.05 | 0.6 | 0.3 | 1.5 |
| | | | 2.30 | 128.60 | 147.50 | 6.60 | 129.50 | 147.50 | 0.05 | 0.6 | 0.3 | 1.5 |
| 93.72 | 218.94 | 161.20 | 0.30 | 15.70 | 5.00 | 94.02 | 234.64 | 166.20 | 16 | 12 | 26.1 | 12.3 |
| 290.40 | 894.69 | 121.50 | 15.70 | 1314.70 | 899.40 | 306.10 | 2209.39 | 1020.90 | 3 | 6 | 6.2 | 7.2 |
| | | | 15.70 | 626.70 | 491.40 | 306.10 | 1521.39 | 612.90 | 3 | 4 | 6.2 | 4.9 |
| 82.48 | 457.16 | 242.05 | 3.00 | 197.60 | 37.60 | 85.48 | 654.76 | 279.65 | 4 | 9 | 8.3 | 9.5 |
| | | | 3.00 | 119.50 | 13.60 | 85.48 | 576.66 | 255.65 | 4 | 8 | 8.3 | 8.4 |
| – | 15.00 | 85.90 | 1.00 | 743.60 | 407.60 | 1.00 | 758.60 | 493.50 | 0.01 | 4 | 0.04 | 7.7 |
| | | | 1.00 | 435.60 | 222.60 | 1.00 | 450.60 | 308.50 | 0.01 | 2 | 0.04 | 4.6 |
| 1176.55 | 3418.46 | 2488.08 | 301.70 | 3665.80 | 2110.40 | 1478.25 | 7084.26 | 4598.48 | 1.6 | 3.8 | 6.8 | 6.7 |
| | | | 301.70 | 1858.30 | 1059.90 | 1478.25 | 5276.76 | 3547.98 | 1.6 | 2.9 | 6.8 | 5.0 |

TABLE 6

**OPEC bilateral concessional financial flows to developing countries, January 1973-June 1975**

*(Million dollars)*

| Recipient | Commitments 1973 | Commitments 1974 | Commitments 1975 January-June | Disbursements: Amount 1973 | Disbursements: Amount 1974 | Disbursements: Amount 1975 January-June | Disbursements: Share of each recipient (percentage) 1973 | Disbursements: Share of each recipient (percentage) 1974 | Disbursements: Share of each recipient (percentage) 1975 January-June |
|---|---|---|---|---|---|---|---|---|---|
| Afghanistan+ | .. | 29.70 | 767.0 | .. | 18.30 | .. | | 0.6 | |
| Algeria* | 7.46 | 7.48 | .. | 7.46 | 7.48 | .. | 0.7 | 0.2 | |
| Bahrain* | 5.09 | 27.64 | 0.51 | 5.14 | 16.24 | 0.25 | 0.5 | 0.5 | 0.02 |
| Bangladesh+ | .. | 78.10 | 109.46 | .. | 52.35 | 36.58 | | 1.7 | 2.4 |
| Benin+ | .. | 4.50 | .. | .. | 0.10 | .. | | – | |
| Burundi+ | 1.00 | 2.00 | .. | 1.00 | 2.00 | .. | 0.1 | 0.1 | |
| Chad+ | 17.42 | 4.43 | 3.38 | 5.42 | 4.22 | 3.38 | 0.5 | 0.1 | 0.2 |
| Democratic Yemen+* | .. | 28.22 | 47.49 | .. | 11.42 | 16.82 | | 0.4 | 1.1 |
| Egypt+* | 1310.56 | 2530.93[a] | 1700.70 | 555.57 | 868.54[a] | 622.92 | 52.0 | 28.1 | 41.2 |
| Equatorial Guinea | .. | 16.00 | 0.50 | .. | 16.00 | .. | | 0.5 | |
| Ethiopia+ | .. | 1.00 | .. | .. | 1.00 | .. | | 0.03 | |
| Gabon | .. | | 3.00 | | | 3.00 | | | 0.2 |
| Gambia | .. | 1.44 | .. | .. | 1.44 | .. | | 0.05 | |
| Guinea+ | .. | 15.20 | .. | .. | 14.00 | .. | | 0.5 | |
| Guinea-Bissau+ | .. | 1.50 | 2.72 | .. | 1.50 | 2.02 | | 0.05 | 0.1 |
| Guyana+ | .. | 15.00 | .. | .. | 15.00 | .. | | 0.05 | |
| Honduras+ | .. | 5.00 | .. | .. | .. | .. | | | |
| India+ | 50.00 | 235.00 | 845.56 | .. | 235.00 | 83.00 | | 7.6 | 5.5 |
| Indonesia | .. | 0.06 | 120.00 | .. | 0.06 | .. | | — | |
| Jordan* | 111.88 | 224.86 | 179.10 | 94.38 | 189.45 | 81.58 | 8.8 | 6.1 | 5.4 |
| Lebanon* | .. | 117.66 | .. | .. | 117.66 | .. | | 3.8 | |
| Libyan Arab Republic* | .. | 0.04 | .. | .. | 0.04 | .. | | – | |
| Malaysia | .. | .. | 178.30 | .. | .. | .. | | | |
| Mali+ | 0.66 | 8.22 | 31.70 | 0.66 | 8.22 | 1.00 | 0.1 | 0.3 | 0.1 |
| Malta | .. | 5.00 | .. | .. | 5.00 | .. | | 0.2 | |
| Mauritania+* | 35.06 | 58.66 | 23.32 | 21.34 | 45.36 | 8.16 | 2.0 | 1.5 | 0.5 |
| Morocco* | .. | 99.20 | 56.19 | | 10.10 | 26.74 | | 0.3 | 1.8 |
| Nicaragua | 0.10 | .. | .. | 0.10 | .. | .. | – | | |
| Niger+ | 4.83 | 0.92 | .. | 2.83 | 0.92 | .. | 0.3 | 0.03 | |
| Oman* | 17.10 | 149.99 | 146.23 | 9.62 | 123.46 | 51.73 | 0.9 | 4.0 | 3.4 |
| Pakistan+ | 33.78 | 751.25 | 198.88 | 33.78 | 325.84 | 118.50 | 3.2 | 10.6 | 7.8 |
| Portugal | .. | .. | 1.00 | .. | .. | 1.00 | | | 0.1 |
| Rwanda+ | .. | .. | 6.50 | .. | .. | 3.00 | | | 0.2 |
| Senegal+ | 2.49 | 51.53 | .. | 0.49 | 38.13 | .. | 0.04 | 1.2 | |
| Somalia+* | 5.50 | 61.21 | 81.02 | 5.46 | 38.98 | 26.87 | 0.5 | 1.3 | 1.8 |
| Sri Lanka+ | .. | .. | 56.11 | .. | .. | 1.00 | | | 0.1 |
| Sudan+* | 29.39 | 112.67 | 96.47 | 3.60 | 98.38 | 23.45 | 0.3 | 3.2 | 1.6 |
| Syrian Arab Republic* | 229.97 | 628.82 | 557.79 | 182.47 | 574.99 | 198.29 | 17.1 | 18.6 | 13.1 |
| Thailand | .. | 40.00 | .. | .. | .. | .. | | | |
| Togo | 1.00 | 1.16 | .. | 1.00 | 1.16 | .. | 0.1 | 0.04 | |
| Tunisia* | 0.68 | 72.78 | 60.34 | 0.68 | 17.58 | 5.00 | 0.1 | 0.6 | 0.3 |
| Turkey | .. | .. | 1.00 | .. | .. | 1.00 | | | 0.1 |
| Uganda+ | .. | 13.10 | 64.02 | .. | 13.10 | 3.32 | | 0.4 | 0.2 |
| United Arab Emirates | 0.61 | 0.03 | .. | 0.61 | 0.03 | .. | 0.1 | – | |
| United Republic of Tanzania+ | .. | .. | 15.60 | .. | .. | .. | | | |
| Upper Volta+ | 0.73 | 3.19 | .. | 0.73 | 3.19 | .. | 0.1 | 0.1 | |
| Yemen+* | 36.45 | 88.90 | 48.43[b] | 8.71 | 72.43 | 16.06 | 0.8 | 2.3 | 1.1 |
| Yugoslavia | .. | 0.50 | .. | .. | 0.50 | .. | | 0.02 | |
| Zambia | 0.33 | 1.60 | .. | 0.33 | 1.60 | .. | 0.03 | 0.05 | |
| Arab recipients, unallocated* | 92.33 | 103.84 | 302.21 | 118.03 | 120.34 | 172.62 | 11.1 | 3.9 | 11.4 |
| African countries, unallocated+ | 8.14[c] | 58.22[d] | 1.13 | 8.14[c] | 6.82 | 5.33 | 0.8 | 0.2 | 0.4 |
| Unallocated | 0.11 | 8.02 | 7.58 | 0.11 | 8.02 | 0.18 | 0.01 | 0.3 | 0.01 |
| Total | 2002.67 | 5664.57 | 5713.25 | 1067.66 | 3085.95 | 1512.80 | 100.0 | 100.0 | 100.0 |
| *of which:* | | | | | | | | | |
| Arab countries* | 1882.08 | 4312.93 | 3299.80 | 1013.07 | 2312.48 | 1250.49 | 94.9 | 74.9 | 82.7 |
| The most seriously affected countries+ | 1536.01 | 4158.45 | 4099.50 | 647.73 | 1874.80 | 971.41 | 60.7 | 60.8 | 64.2 |

FOOT-NOTES TO TABLE 6

* As defined by membership of League of Arab States.

+ As identified in the list of the Secretary-General of the United Nations in his report entitled "United Nations Emergency Operation" (A/10201), table A.

[a] Includes $0.63 million worth of commitments and $0.55 million worth of disbursements which were jointly allocated to Egypt and the Syrian Arab Republic.

[b] Includes $0.7 million to be divided between Yemen and Democratic Yemen, for which the breakdown is not available.

[c] Include $4.3 million from Nigeria to be divided among the 7 Sahel countries, Chad, Mali, Mauritania, Niger, Upper Volta, Senegal and Togo, for which the breakdown is not available.

[d] Includes $35 million which were allocated by Kuwait to Senegal, Mali and Mauritania, for which the breakdown is not available.

TABLE 7

**OPEC bilateral non-concessional financial flows to developing countries and territories, January 1973-June 1975**

*(Million dollars)*

| | Commitments | | | Disbursements | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | | | | Amount | | | Share of each recipient (percentage) | | |
| Recipient | 1973 | 1974 | 1975 January-June | 1973 | 1974 | 1975 January-June | 1973 | 1974 | 1975 January-June |
| Algeria* | 74.25 | 74.90 | .. | 50.25 | 74.90 | .. | 46.1 | 22.5 | |
| Argentina | .. | .. | 200.00 | .. | .. | 50.00 | | | 5.1 |
| Bahrain* | 0.32 | .. | .. | 0.31 | .. | .. | 0.3 | | |
| Bermuda | .. | .. | 0.08 | .. | .. | 0.08 | | | 0.01 |
| Brazil | .. | 45.00 | 3.00 | .. | 25.00 | 23.00 | | 7.5 | 2.4 |
| Burundi+ | 2.40 | .. | .. | .. | .. | .. | | | |
| Chad+ | 16.67 | 6.21 | .. | 14.13 | 6.21 | .. | 13.0 | 1.9 | |
| Costa Rica | .. | .. | 76.50[a] | .. | .. | 9.30[a] | | | 1.0 |
| Democratic Yemen+* | .. | 15.00 | 0.35 | .. | .. | .. | | | |
| Egypt+* | 164.52 | 627.56 | 1086.94 | 24.52 | 16.22 | 661.91 | 22.5 | 4.9 | 67.9 |
| El Salvador+ | .. | .. | 119.40[a] | .. | .. | 14.50[a] | | | 1.5 |
| Gabon | 33.68 | .. | 1.50 | .. | .. | .. | | | |
| Gambia | .. | 0.35 | .. | .. | .. | .. | | | |
| Guatemala | .. | .. | 155.10[a] | .. | .. | 18.80[a] | | | 1.9 |
| Guinea+ | .. | 15.00 | .. | .. | 15.00 | .. | | 4.5 | |
| Guyana+ | .. | 20.00 | 10.39 | .. | 15.00 | 10.39 | | 4.5 | 1.1 |
| Honduras+ | .. | .. | 121.50[a] | .. | .. | 14.70[a] | | | 1.5 |
| Hong Kong | 0.49 | 3.50 | .. | 0.49 | 3.50 | .. | 0.4 | 1.1 | |
| Indonesia | .. | 1.00 | 200.00 | .. | 1.00 | .. | | 0.3 | |
| Jamaica | .. | 27.50 | 84.00 | .. | .. | .. | | | |
| Jordan* | .. | 1.57 | 3.34 | .. | 1.57 | .. | | 0.5 | |
| Lebanon | 2.45 | 3.31 | .. | 2.45 | 3.31 | .. | 2.2 | 1.0 | |
| Liberia | .. | 2.00 | .. | .. | .. | .. | | | |
| Madagascar+ | .. | 6.82 | .. | .. | 6.82 | .. | | 2.1 | |
| Mali+ | .. | 10.70[b] | .. | .. | .. | .. | | | |
| Malta | 0.16 | 3.81 | .. | 0.16 | 3.81 | .. | 0.1 | 1.1 | |
| Mauritania+* | 10.73 | 2.63 | 1.43 | 10.73 | 2.07 | .. | 9.9 | 0.6 | |
| Mexico | .. | .. | 1.00 | .. | .. | 1.00 | | | 0.1 |
| Nicaragua | .. | .. | 93.20[a] | .. | .. | 11.30[a] | | | 1.2 |
| Oman* | .. | 2.00 | .. | .. | 2.00 | .. | | 0.6 | |
| Pakistan+ | 11.97 | 41.03 | 67.00 | .. | .. | .. | | | |
| Panama | .. | .. | 142.50[a] | .. | .. | 17.30[a] | | | 1.8 |
| Peru | .. | .. | 100.00 | .. | .. | 100.00 | | | 10.3 |
| Republic of Korea | .. | 20.00 | .. | .. | .. | .. | | | |
| Senegal+ | 0.56 | .. | 0.40 | 0.56 | .. | .. | 0.5 | | |
| Somalia+* | .. | 50.46 | .. | .. | 20.46 | .. | | 6.2 | |
| Spain | .. | 36.28 | 7.80 | .. | .. | .. | | | |
| Sri Lanka+ | .. | .. | 40.00 | .. | .. | 40.00 | | | 4.1 |
| Sudan+* | 26.92 | 7.47 | .. | 0.72 | 7.47 | .. | 0.7 | 2.2 | |
| Syrian Arab Republic* | .. | .. | 200.00 | .. | .. | .. | | | |
| Togo | .. | .. | 96.90 | .. | .. | .. | | | |
| Tunisia* | 1.00 | 0.96 | 5.78 | .. | 0.96 | 3.00 | | 0.3 | 0.3 |
| Uganda+ | 4.57 | 7.42 | 24.00 | 4.57 | .. | .. | 4.2 | | |
| United Arab Emirates* | .. | .. | 1.04 | .. | .. | .. | | | |
| United Republic of Cameroon+ | .. | .. | 0.56 | .. | .. | .. | | | |

TABLE 7 *(continued)*

| Recipient | Commitments | | | Disbursements: Amount | | | Disbursements: Share of each recipient (percentage) | | |
|---|---|---|---|---|---|---|---|---|---|
| | 1973 | 1974 | 1975 January-June | 1973 | 1974 | 1975 January-June | 1973 | 1974 | 1975 January-June |
| Yemen+* | .. | .. | 100.00 | .. | ..[a] | .. | | | |
| Yugoslavia | .. | 100.00 | 125.00 | .. | (100.00) | .. | | 30.1 | |
| Zaire | .. | 101.33 | 50.00 | .. | 20.27 | .. | | 6.1 | |
| Arab recipients, unallocated* | .. | 6.94 | .. | .. | 6.94 | .. | | 2.1 | |
| Total | 350.69 | 1240.75 | 3118.71 | 108.89 | 332.51 | 975.28 | 100.0 | 100.0 | 100.0 |
| *of which:* | | | | | | | | | |
| Arab recipients* | 280.19 | 792.80 | 1398.88 | 88.98 | 135.90 | 664.91 | 81.7 | 40.9 | 68.2 |
| The most seriously affected countries+ | 238.34 | 810.30 | 1571.97 | 55.23 | 89.25 | 741.50 | 50.7 | 26.8 | 76.0 |

* As defined by membership in the League of Arab States.

+ See the corresponding foot-note in table 6.

[a] Estimate by the secretariat of UNCTAD.

[b] OECD estimate.

TABLE 8

**OPEC total bilateral financial flows to developing countries and territories, January 1973-June 1975**

*(Million dollars)*

| Recipient | Commitments | | | Disbursements: Amount | | | Disbursements: Share of each recipient (percentage) | | |
|---|---|---|---|---|---|---|---|---|---|
| | 1973 | 1974 | January-June 1975 | 1973 | 1974 | 1975 January-June | 1973 | 1974 | 1975 January-June |
| Afghanistan+ | .. | 29.70 | 767.01 | .. | 8.30 | .. | | 0.5 | |
| Algeria* | 81.71 | 82.38 | .. | 57.71 | 82.38 | .. | 4.9 | 2.4 | |
| Argentina | .. | .. | 200.00 | | | 50.00 | | | 2.0 |
| Bahrain* | 5.41 | 27.64 | 0.51 | 5.45 | 16.24 | 0.25 | 0.5 | 0.5 | 0.01 |
| Bangladesh+ | .. | 78.10 | 109.46 | .. | 52.35 | 36.58 | | 1.5 | 1.5 |
| Benin+ | .. | 4.50 | | .. | 0.10 | .. | | – | |
| Bermuda | .. | .. | 0.08 | .. | | 0.08 | | | 0.0 |
| Brazil | .. | 45.00 | 3.00 | .. | 25.00 | 23.00 | | 0.7 | 0.9 |
| Burundi+ | 3.40 | 2.00 | .. | 1.00 | 2.00 | .. | 0.1 | 0.1 | |
| Chad+ | 34.09 | 10.64 | 3.38 | 19.55 | 10.43 | 3.38 | 1.7 | 0.3 | 0.1 |
| Costa Rica | .. | .. | 76.50[a] | .. | .. | 9.30[a] | | | 0.4 |
| Democratic Yemen+* | .. | 43.22 | 47.84 | .. | 11.42 | 16.82 | | 0.3 | 0.7 |
| Egypt+* | 1475.08 | 3158.49[b] | 2787.64 | 580.09 | 884.76[a] | 1284.83 | 49.3 | 25.9 | 51.6 |
| El Salvador+ | .. | .. | 119.40[a] | .. | .. | 14.50[a] | | | 0.6 |
| Equatorial Guinea | .. | 16.00 | 0.50 | .. | 16.00 | .. | | 0.5 | |
| Ethiopia+ | .. | 1.00 | .. | .. | 1.00 | .. | | 0.03 | |
| Gabon | 33.68 | .. | 4.50 | .. | .. | 3.00 | | | 0.1 |
| Gambia | .. | 1.79 | .. | | 1.44 | .. | | 0.04 | |
| Guatemala | .. | .. | 155.10 | .. | | 18.80 | | | 0.8 |
| Guinea+ | .. | 30.20 | .. | .. | 29.00 | .. | | 0.8 | |
| Guinea-Bissau+ | .. | 1.50 | 2.72 | .. | 1.50 | 2.02 | | 0.04 | 0.1 |
| Guyana+ | .. | 35.00 | 10.39 | .. | 30.00 | 10.39 | | 0.9 | 0.4 |
| Honduras+ | .. | 5.00 | 121.50[a] | .. | .. | 14.70[a] | | | 0.6 |
| Hong Kong | 0.49 | 3.50 | .. | 0.49 | 3.50 | .. | 0.04 | 0.1 | |
| India+ | 50.00 | 235.00 | 845.56 | .. | 235.00 | 83.00 | | 6.9 | 3.3 |
| Indonesia | .. | 1.06 | 320.00 | .. | 1.06 | .. | | 0.03 | |
| Jamaica | .. | 27.50 | 84.00 | .. | .. | .. | | | |
| Jordan* | 111.88 | 226.43 | 182.44 | 94.38 | 191.02 | 81.58 | 8.0 | 5.6 | 3.3 |

TABLE 8 *(continued)*

**OPEC total bilateral financial flows to developing countries and territories, January 1973-June 1975**

*(Million dollars)*

| | Commitments | | | Disbursements | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | | | | Amount | | | Share of each recipient (percentage) | | |
| Recipient | 1973 | 1974 | 1975 January-June | 1973 | 1974 | 1975 January-June | 1973 | 1974 | 1975 January-June |
| Lebanon* | 2.45 | 120.97 | .. | 2.45 | 120.97 | .. | 0.2 | 3.5 | |
| Liberia | .. | 2.00 | .. | .. | .. | .. | | | |
| Libyan Arab Republic* | .. | 0.04 | .. | .. | 0.04 | .. | | 0.0 | |
| Madagascar+ | .. | 6.82 | .. | .. | 6.82 | .. | | 0.2 | |
| Malaysia | .. | .. | 178.30 | .. | .. | .. | | | |
| Mali+ | 0.66 | 18.92[c] | 31.70 | 0.66 | 8.22 | 1.00 | 0.1 | 0.2 | 0.04 |
| Malta | 0.16 | 8.81 | .. | 0.16 | 8.81 | .. | 0.01 | 0.3 | |
| Mauritania+* | 45.79 | 61.29 | 24.75 | 32.07 | 47.43 | 8.16 | 0.7 | 1.4 | 0.3 |
| Mexico | .. | .. | 1.00 | .. | .. | 1.00 | | | 0.04 |
| Morocco* | .. | 99.20 | 56.19 | .. | 1010 | 26.74 | | 0.3 | 1.1 |
| Nicaragua | 0.10 | .. | 93.20[a] | 0.10 | .. | 11.30[a] | 0.01 | | 0.5 |
| Niger+ | 4.83 | 0.92 | .. | 2.83 | 0.92 | .. | 0.2 | 0.03 | |
| Oman* | 17.10 | 151.99 | 146.23 | 9.62 | 125.46 | 51.73 | 0.8 | 3.7 | 2.1 |
| Pakistan+ | 45.75 | 792.28 | 265.88 | 33.78 | 325.84 | 118.50 | 2.9 | 9.5 | 4.8 |
| Panama | .. | .. | 142.50[a] | .. | .. | 17.30[a] | | | 0.7 |
| Peru | .. | .. | 100.00 | .. | .. | 100.00 | | | 4.0 |
| Portugal | .. | .. | 1.00 | .. | .. | 1.00 | | | 0.04 |
| Republic of Korea | .. | 20.00 | .. | .. | .. | .. | | | |
| Rwanda+ | .. | .. | 6.50 | .. | .. | 3.00 | | | 0.1 |
| Senegal+ | 3.05 | 51.53 | 0.40 | 1.05 | 38.13 | .. | 0.1 | 1.1 | |
| Somalia+* | 5.50 | 111.67 | 81.02 | 5.46 | 59.44 | 26.87 | 0.5 | 1.7 | 1.1 |
| Spain | .. | 36.28 | 7.80 | .. | .. | .. | | | |
| Sri Lanka+ | .. | .. | 96.11 | .. | .. | 41.00 | | | 1.6 |
| Sudan+* | 56.31 | 120.14 | 96.47 | 4.32 | 105.85 | 23.45 | 0.4 | 3.1 | 0.9 |
| Syrian Arab Republic* | 229.97 | 628.82 | 757.79 | 182.47 | 574.99 | 198.29 | 15.5 | 16.8 | 8.0 |
| Thailand | .. | 40.00 | .. | | | .. | | | |
| Togo | 1.00 | 1.16 | 96.90 | 1.00 | 1.16 | .. | 0.1 | 0.03 | |
| Tunisia* | 1.68 | 73.74 | 66.12 | 0.68 | 18.54 | 8.00 | 0.1 | 0.5 | 0.3 |
| Turkey | .. | .. | 1.00 | | | 1.00 | | | 0.04 |
| Uganda+ | 4.57 | 20.52 | 88.02 | 4.57 | 13.10 | 3.32 | 0.4 | 0.4 | 0.1 |
| United Arab Emirates* | 0.61 | 0.03 | 1.04 | 0.61 | 0.03 | .. | 0.1 | – | .. |
| United Republic of Cameroon+ | | | 0.56 | | | | | | |
| United Republic of Tanzania+ | | | 15.60 | | | | | | |
| Upper Volta+ | 0.73 | 3.19 | .. | 0.73 | 3.19 | .. | 0.1 | 0.1 | |
| Yemen+* | 36.45 | 88.90 | 148.43[d] | 8.71 | 72.43 | 16.06 | 0.7 | 2.1 | 0.6 |
| Yugoslavia | .. | 100.50 | 125.00 | | 100.50 | .. | | 2.9 | |
| Zaire | .. | 101.33 | 50.00 | | 20.27 | .. | | 0.6 | |
| Zambia | 0.33 | 1.60 | .. | 0.33 | 1.60 | .. | 0.03 | 0.05 | |
| Arab, unallocated* | 92.33 | 110.78 | 302.21 | 118.03 | 127.28 | 172.62 | 10.0 | 3.7 | 6.9 |
| Africa, unallocated + | 8.14[e] | 58.22 | 1.13 | 8.14[e] | 6.82 | 5.33 | 0.7 | 0.2 | 0.2 |
| Unallocated | 0.11 | 8.02 | 7.58 | 0.11 | 8.02 | 0.18 | 0.01 | 0.2 | 0.01 |
| Total | 2353.36 | 6905.32 | 8831.96 | 1176.55 | 3418.46 | 2488.08 | 100.0 | 100.0 | 100.0 |
| *of which:* | | | | | | | | | |
| Arab recipients* | 2162.27 | 5105.73 | 4698.68 | 1102.05 | 2448.38 | 1915.4 | 93.7 | 71.6 | 77.0 |
| The most seriously affected countries+ | 1774.35 | 4968.75 | 5671.47 | 702.96 | 1964.05 | 1712.91 | 59.7 | 57.5 | 68.8 |

* As defined by membership in the League of Arab States.

\+ See the corresponding foot-note in table 6.

a Secretariat estimates.

b Includes $0.63 million worth of commitments and $0.55 million worth of disbursements which were jointly allocated to Egypt and the Syrian Arab Republic.

c Partly estimated by OECD.

d Includes $0.07 million to be divided between Yemen and Democratic Yemen, for which the breakdown is not available.

e Includes $4.3 million from Nigeria to be divided among Chad, Mali, Mauritania, Niger, Upper Volta, Senegal and Togo, for which the breakdown is not available.

f Includes $35 million which were allocated by Kuwait to Senegal, Mali and Mauritania, for which the breakdown is not available.

TAE

**Financial flows from OPEC countrie**

*(Mill*

| Recipient institution | Algeria C[a] | Algeria D[b] | Iran C[a] | Iran D[b] | Iraq C[a] | Iraq D[b] | Kuwait C[a] | Kuwait D[b] | Libya C[a] |
|---|---|---|---|---|---|---|---|---|---|
| ABEDA | | | | | | | | | |
| 1973 | 20.0 | .. | .. | .. | 30.0 | .. | 20.0 | .. | .. |
| 1974 | .. | .. | .. | .. | .. | .. | 200.0 | .. | 40.0 |
| 1975 | .. | .. | .. | .. | .. | 7.5 | .. | 5.0 | .. |
| ABIFT | | | | | | | | | |
| 1973 | .. | .. | .. | .. | .. | .. | .. | .. | .. |
| 1974 | .. | .. | .. | .. | .. | .. | .. | .. | 5.0 |
| 1975 | .. | .. | .. | .. | .. | .. | .. | .. | .. |
| AfDB[c] | | | | | | | | | |
| 1973 | .. | .. | .. | .. | .. | .. | .. | .. | .. |
| 1974 | 20.0 | .. | .. | .. | .. | .. | .. | .. | 20.0 |
| 1975 | .. | .. | .. | .. | .. | .. | .. | .. | .. |
| AFESD | | | | | | | | | |
| 1973 | .. | .. | .. | .. | .. | .. | .. | .. | .. |
| 1974 | .. | .. | .. | .. | .. | 30.0 | .. | 8.1 | .. |
| 1975 | .. | .. | .. | .. | .. | .. | .. | .. | .. |
| AFPLAC | | | | | | | | | |
| 1973 | .. | .. | .. | .. | .. | .. | .. | .. | .. |
| 1974 | 20.0 | 20.0 | .. | .. | 30.0 | 30.0 | 30.0 | 30.0 | 30.0 |
| 1975 | .. | .. | .. | .. | .. | .. | .. | .. | .. |
| AFTAAAC | | | | | | | | | |
| 1973 | .. | .. | .. | .. | .. | .. | .. | .. | .. |
| 1974 | .. | .. | .. | .. | 2.0 | 2.0 | .. | .. | 3.0 |
| 1975 | .. | .. | .. | .. | .. | .. | .. | .. | .. |
| AIC | | | | | | | | | |
| 1973 | .. | .. | .. | .. | .. | .. | .. | .. | .. |
| 1974 | .. | .. | .. | .. | .. | .. | .. | .. | .. |
| 1975 | .. | .. | .. | .. | .. | .. | .. | .. | .. |
| AsDB | | | | | | | | | |
| 1973 | .. | .. | .. | .. | .. | .. | .. | .. | .. |
| 1974 | .. | .. | .. | .. | .. | .. | 17.2 | .. | .. |
| 1975 | .. | .. | .. | .. | .. | .. | .. | .. | .. |
| CFTC | | | | | | | | | |
| 1973 | .. | .. | .. | .. | .. | .. | .. | .. | .. |
| 1974 | .. | .. | .. | .. | .. | .. | .. | .. | .. |
| 1975 | .. | .. | .. | .. | .. | .. | .. | .. | .. |
| CGIAR | | | | | | | | | |
| 1973 | .. | .. | .. | .. | .. | .. | .. | .. | .. |
| 1974 | .. | .. | .. | .. | .. | .. | .. | .. | .. |
| 1975 | .. | .. | .. | .. | .. | .. | .. | .. | .. |
| World Bank | | | | | | | | | |
| 1973 | .. | .. | 3.0 | 3.0 | 7.0 | 0.1 | 166.8 | 166.8 | 106.3 |
| 1974 | 37.3 | .. | 363.8 | 288.8 | .. | .. | 4.5 | 10.2 | 1.5 |
| 1975 | .. | .. | 13.8 | 88.8 | .. | .. | 1.0 | 1.0 | 9.2 |
| IDA | | | | | | | | | |
| 1973 | .. | .. | .. | .. | .. | .. | .. | .. | 0.1 |
| 1974 | .. | .. | .. | .. | .. | .. | 27.5 | 10.7 | .. |
| 1975 | .. | .. | .. | .. | .. | .. | .. | .. | .. |
| IDB[d] | | | | | | | | | |
| 1973 | .. | .. | .. | .. | .. | .. | .. | .. | .. |
| 1974 | .. | .. | .. | .. | .. | .. | .. | .. | .. |
| 1975 | .. | .. | .. | .. | .. | .. | .. | .. | .. |

ltilateral institutions, January 1973-June 1975
*lars)*

| *Nigeria* | | *Qatar* | | *Saudi Arabia* | | *United Arab Emirates* | | *Venezuela* | | *Total* | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| *C*[a] | *D*[b] | *C*[a] | *D*[b] | *C*[a] | *D*[b] | *C*[a] | *D*[b] | *C*[a] | *D*[b] | *C*[a] | *D*[b] |
| .. | .. | 20.0 | .. | .. | .. | .. | .. | .. | .. | 90.0 | – |
| .. | .. | .. | .. | 50.0 | .. | 20.0 | .. | .. | .. | 310.0 | – |
| .. | .. | .. | 5.0 | .. | 21.5 | .. | .. | .. | .. | – | 39.0 |
| .. | .. | .. | .. | .. | .. | .. | .. | .. | .. | – | – |
| .. | .. | .. | .. | .. | .. | 5.0 | .. | .. | .. | 10.0 | 2.5 |
| .. | .. | .. | .. | .. | .. | .. | 2.5 | | .. | – | 2.5 |
| 0.1 | 0.1 | .. | .. | .. | .. | .. | .. | .. | .. | 0.1 | 0.1 |
| 15.6 | 7.8 | .. | .. | .. | .. | .. | .. | .. | .. | 55.6 | 7.8 |
| 85.0 | .. | .. | .. | .. | .. | .. | .. | .. | .. | 85.0 | – |
| .. | .. | .. | .. | .. | .. | .. | .. | .. | .. | – | – |
| .. | .. | .. | (0.5) | 60.0 | .. | .. | .. | .. | .. | 60.0 | 41.8 |
| .. | .. | .. | .. | .. | .. | .. | .. | .. | .. | – | 6.5 |
| .. | .. | .. | .. | .. | .. | .. | .. | .. | .. | – | – |
| .. | .. | 10.0 | 10.0 | 40.0 | 40.0 | 20.0 | 20.0 | .. | .. | 180.0 | 180.0 |
| .. | .. | .. | .. | .. | .. | .. | .. | .. | .. | – | – |
| .. | .. | .. | .. | .. | .. | .. | .. | .. | .. | – | – |
| .. | .. | .. | .. | .. | .. | 3.0 | .. | .. | .. | 8.0 | 2.0 |
| .. | .. | .. | .. | 3.0 | .. | .. | .. | .. | .. | 3.0 | – |
| .. | .. | .. | .. | .. | .. | .. | .. | .. | .. | – | – |
| .. | .. | .. | .. | .. | .. | 38.2 | .. | .. | .. | 38.2 | – |
| .. | .. | .. | .. | .. | .. | .. | 7.6 | .. | .. | – | 7.6 |
| .. | .. | .. | .. | .. | .. | .. | .. | .. | .. | – | – |
| .. | .. | .. | .. | .. | .. | .. | .. | .. | .. | 17.2 | |
| .. | .. | .. | .. | 14.3 | .. | .. | .. | .. | .. | 14.3 | – |
| .. | .. | .. | .. | .. | .. | .. | .. | .. | .. | – | – |
| 1.0 | 1.0 | .. | .. | .. | .. | .. | .. | .. | .. | 1.0 | 1.0 |
| 1.0 | .. | .. | .. | .. | .. | .. | .. | .. | .. | 1.0 | – |
| 0.8 | .. | .. | .. | .. | .. | .. | .. | .. | .. | 0.8 | |
| .. | .. | .. | .. | .. | .. | .. | .. | .. | .. | – | – |
| .. | .. | .. | .. | .. | .. | .. | .. | .. | .. | – | – |
| 1.1 | 1.1 | .. | .. | 15.0 | 15.0 | 2.5 | 2.5 | .. | .. | 301.7 | 294.8 |
| 239.5 | 119.5 | .. | .. | 913.3 | 538.3 | 79.0 | 79.0 | 523.3 | 381.3 | 2162.2 | 1418.6 |
| 27.5 | 147.5 | .. | .. | 37.3 | 393.4 | 0.5 | 0.5 | 9.2 | 159.2 | 98.5 | 799.6 |
| .. | .. | .. | .. | .. | .. | .. | .. | .. | .. | 0.1 | 0.1 |
| .. | .. | .. | .. | .. | .. | .. | .. | .. | .. | 27.5 | 10.7 |
| .. | .. | .. | .. | .. | .. | .. | .. | .. | .. | – | – |
| .. | .. | .. | .. | .. | .. | .. | .. | .. | .. | – | – |
| .. | .. | .. | .. | .. | .. | .. | .. | 523.3 | 23.3 | 523.3 | 23.3 |
| .. | .. | .. | .. | .. | .. | .. | .. | .. | 40.0 | | 40.0 |

TAE

**Financial flows from OPEC countrie**

*(Mil.*

| *Recipient institution* | *Algeria* $C^a$ | *Algeria* $D^b$ | *Iran* $C^a$ | *Iran* $D^b$ | *Irak* $C^a$ | *Irak* $D^b$ | *Kuwait* $C^a$ | *Kuwait* $D^b$ | *Libya* $C^a$ | *Libya* *l* |
|---|---|---|---|---|---|---|---|---|---|---|
| IMF oil facility | | | | | | | | | | |
| 1973 | .. | .. | .. | .. | .. | .. | .. | .. | .. | |
| 1974 | .. | .. | 710.1[e] | 457.9[e] | .. | .. | 480.0[f] | 275.5 | .. | |
| 1975 | .. | .. | 513.9[e] | 153.9[e] | .. | .. | 240.0[f] | 155.6 | .. | |
| IsDB | | | | | | | | | | |
| 1973 | .. | .. | .. | .. | .. | .. | .. | .. | .. | |
| 1974 | 30.0 | .. | .. | .. | .. | .. | 120.0 | | 150.0 | |
| 1975 | .. | .. | .. | .. | .. | .. | .. | 24.0 | .. | 3 |
| ISF | | | | | | | | | | |
| 1973 | .. | .. | .. | .. | .. | .. | .. | .. | .. | . |
| 1974 | .. | .. | .. | .. | .. | .. | .. | .. | .. | . |
| 1975 | .. | .. | .. | .. | .. | .. | 2.0 | . | .. | |
| Chad Basin Commission | | | | | | | | | | |
| 1973 | .. | .. | .. | .. | .. | .. | .. | .. | .. | . |
| 1974 | .. | .. | .. | .. | .. | .. | .. | .. | .. | . |
| 1975 | .. | .. | .. | .. | .. | .. | .. | .. | .. | . |
| LASEF | | | | | | | | | | |
| 1973 | .. | .. | .. | .. | .. | .. | .. | .. | .. | . |
| 1974 | .. | .. | .. | .. | .. | .. | .. | .. | .. | . |
| 1975 | .. | .. | .. | .. | .. | .. | .. | .. | .. | . |
| OAPEC-SAAPIC | | | | | | | | | | |
| 1973 | .. | .. | .. | .. | .. | .. | .. | .. | .. | . |
| 1974 | .. | .. | .. | .. | 16.0 | 16.0 | 16.9 | 16.9 | 10.0 | 1( |
| 1975 | .. | .. | .. | .. | .. | .. | .. | .. | .. | . |
| OMVS | | | | | | | | | | |
| 1973 | .. | .. | .. | .. | .. | .. | .. | .. | .. | . |
| 1974 | .. | .. | .. | .. | .. | .. | .. | .. | .. | . |
| 1975 | .. | .. | .. | .. | .. | .. | .. | .. | .. | . |
| United Nations agencies | | | | | | | | | | |
| 1973 | 0.6 | 0.6 | .. | .. | 0.6 | 0.6 | 0.9 | 0.9 | 1.0 | |
| 1974 | 0.4 | 0.4 | .. | .. | 0.6 | 0.6 | 35.9 | 0.6 | 11.0 | ( |
| 1975 | .. | .. | 4.4 | .. | 0.5[g] | .. | .. | .. | .. | . |
| United Nations Special Account | | | | | | | | | | |
| 1973 | .. | .. | .. | .. | .. | .. | .. | .. | .. | . |
| 1974 | 20.0 | .. | 20.0 | 20.0 | .. | .. | 10.0 | .. | .. | . |
| 1975 | .. | .. | .. | .. | .. | .. | .. | .. | .. | . |
| Total | | | | | | | | | | |
| 1973 | 20.6 | 0.6 | 3.0 | 3.0 | 37.6 | 0.7 | 187.7 | 167.7 | 107.4 | 10 |
| 1974 | 127.7 | 20.4 | 1093.9 | 766.7 | 48.6 | 78.6 | 942.0 | 352.0 | 270.5 | 4 |
| 1975 | – | – | 532.1 | 242.7 | 0.5 | 7.5 | 243.0 | 185.6 | 9.2 | 5 |

[a] *Commitments.*

[b] Disbursements.

[c] Unit of account converted at the rate of UA 1.00 = $ 1.20635.

[d] IDB and IDB Trust Fund.

(continued)

ultilateral institutions, January 1973-June 1975

llars)

| *Nigeria* | | *Qatar* | | *Saudi Arabia* | | *United Arab Emirates* | | *Venezuela* | | *Total* | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| C[a] | D[b] | C[a] | D[b] | C[a] | D[b] | C[a] | D[b] | C[a] | D[b] | C[a] | D[b] |
| .. | .. | .. | .. | .. | .. | .. | .. | .. | .. | – | – |
| 120.0[f] | .. | .. | .. | 1200.0[f] | 688.0 | 120.0[f] | 78.1 | 540.0[f] | 308.0 | 3170.1[e] | 1807.6 |
| 240.0[f] | 124.0 | .. | .. | 1200.0[f] | 408.0 | | 24.0 | 240.0[f] | 175.0 | 2433.9[e] | 1040.5[e] |
| .. | .. | .. | .. | .. | .. | .. | .. | .. | .. | .. | .. |
| .. | .. | 30.0 | .. | 240.0 | .. | 132.0 | .. | .. | .. | 702.0 | – |
| .. | .. | .. | .. | .. | 48.0 | .. | .. | .. | .. | – | 109.8 |
| .. | .. | .. | .. | .. | .. | .. | .. | .. | .. | – | – |
| .. | .. | 10.0 | .. | 4.5 | .. | 2.0 | .. | .. | .. | 16.5 | – |
| .. | .. | .. | .. | 1.5 | 6.0 | .. | .. | .. | .. | 3.5 | 6.0 |
| 0.8 | 0.8 | .. | .. | .. | .. | .. | .. | .. | .. | 0.8 | 0.8 |
| .. | .. | .. | .. | .. | .. | .. | .. | .. | .. | | |
| .. | .. | .. | .. | .. | .. | .. | .. | .. | .. | .. | |
| .. | .. | .. | .. | .. | .. | .. | .. | .. | .. | – | – |
| .. | .. | .. | .. | .. | .. | .. | .. | .. | .. | – | – |
| .. | .. | .. | .. | 11.5 | 11.5 | .. | .. | .. | .. | 11.5 | 11.5 |
| .. | .. | .. | .. | .. | .. | .. | .. | .. | .. | – | – |
| .. | .. | 5.0 | 5.0 | 15.0 | 15.0 | 10.0 | 10.0 | .. | .. | 72.9 | 72.9 |
| .. | .. | .. | .. | .. | .. | .. | .. | .. | .. | – | – |
| .. | .. | .. | .. | .. | .. | .. | .. | .. | .. | – | – |
| .. | .. | .. | .. | .. | .. | .. | .. | .. | .. | – | – |
| .. | .. | .. | .. | 10.0 | 10.0 | .. | .. | .. | .. | 10.0 | 10.0 |
| 0.3 | 0.3 | 0.3 | 0.3 | 50.7 | 0.7 | 0.5 | 0.5 | 1.0 | 1.0 | 55.9 | 5.9 |
| 0.3 | 0.3 | 0.2 | 0.2 | 12.5 | 3.4 | 5.5 | 0.5 | 1.0 | 1.0 | 67.4 | 7.7 |
| 0.3[g] | .. | .. | .. | 2.5 | 1.0 | 3.5 | 3.0 | 1.5[g] | | 12.7 | 4.0 |
| .. | .. | .. | .. | .. | .. | .. | .. | .. | .. | – | – |
| .. | .. | .. | .. | 30.0 | 30.0 | 10.0 | 10.0 | 80.0 | 30.0 | 170.0 | 90.0 |
| .. | .. | .. | .. | .. | .. | .. | .. | .. | 23.4 | – | 23.4 |
| 3.1 | 2.3 | 20.3 | 0.3 | 65.7 | 15.7 | 3.0 | 3.0 | 1.0 | 1.0 | 49.4 | 301.7 |
| 376.4 | 128.6 | 55.2 | 15.7 | 2565.3 | 1314.7 | 444.7 | 197.6 | 1667.6 | 743.6 | 7591.9 | 3665.8 |
| 353.8 | 271.5 | – | 5.0 | 1280.1 | 899.4 | 4.0 | 37.6 | 250.7 | 397.6 | 2673.4 | 2100.4 |

[e] Converted at the SDR/dollar exchange rates for the ends of the respective periods, as published in IMF, *International Financial* *'tatistics.*

[f] Converted at the rate of SDR 1.00 = $1.20.

[g] UNDP only.

TABLE 10

**Disbursements by selected multilateral funds and institutions financed largely or exclusively by OPEC countries, January 1973-June 1975**

*(Million dollars)*

| *Recipient country* | *AFPLAC*[a] | *AFESD*[b] | *OAPEC-SAAPIC* | *United Nations special account*[c] | *IMF-oil facility*[d, e] | *Total* | *Share of recipient (percentage)* |
|---|---|---|---|---|---|---|---|
| Algeria* | .. | 2.63 | .. | .. | .. | 2.63 | 0.1 |
| Bangladesh + | .. | .. | .. | 29.98 | 61.80 | 91.78 | 5.1 |
| Benin + | 1.20 | .. | .. | .. | .. | 1.20 | 0.1 |
| Botswana | 5.40 | .. | .. | .. | .. | 5.40 | 0.3 |
| Burundi + | 2.00 | ... | .. | .. | 1.44 | 3.44 | 0.2 |
| Central African Republic + | 2.40 | .. | .. | 1.00 | 3.96 | 7.36 | 0.4 |
| Chad + | 8.80 | .. | .. | 2.30 | 2.64 | 13.74 | 0.8 |
| Chile | .. | .. | .. | .. | 142.20 | 142.20 | 7.9 |
| Costa Rica | .. | .. | .. | .. | 22.56 | 22.56 | 1.2 |
| Cyprus | .. | .. | .. | .. | 9.72 | 9.72 | 0.5 |
| Democratic Yemen +* | .. | 0.93 | 11.16 | 1.00 | 19.68 | 32.77 | 1.8 |
| El Salvador + | .. | .. | .. | 2.50 | 21.48 | 23.98 | 1.3 |
| Equatorial Guinea | 0.50 | .. | .. | .. | .. | 0.50 | – |
| Ethiopia + | 14.20 | .. | .. | .. | .. | 14.20 | 0.8 |
| Fiji | .. | .. | .. | .. | 0.36 | 0.36 | – |
| Gambia | 0.35 | .. | .. | .. | .. | 0.35 | – |
| Ghana + | 8.80 | .. | .. | 1.00 | 46.32 | 56.12 | 3.1 |
| Guinea + | 0.80 | .. | .. | .. | 4.20 | 5.00 | 0.3 |
| Guinea-Bissau + | 0.50 | .. | .. | .. | .. | 0.50 | – |
| Haiti + | .. | .. | .. | 1.15 | 7.68 | 8.83 | 0.5 |
| Honduras + | .. | .. | .. | 2.20 | 20.16 | 22.36 | 1.2 |
| India + | .. | .. | .. | 32.50 | 240.00 | 272.50 | 15.1 |
| Israel | .. | .. | .. | .. | 74.40 | 74.40 | 4.1 |
| Ivory Coast + | 3.60 | .. | .. | .. | 13.40 | 17.00 | 0.9 |
| Kenya + | 3.60 | .. | .. | 2.50 | 43.20 | 49.30 | 2.7 |
| Lao People's Democratic Republic + | .. | .. | .. | 0.50 | .. | 0.50 | – |
| Lesotho + | 2.80 | .. | .. | .. | .. | 2.80 | 0.2 |
| Liberia | 3.60 | .. | .. | .. | .. | 3.60 | 0.2 |
| Madagascar + | 2.40 | .. | .. | 1.60 | 17.16 | 21.16 | 1.2 |
| Malawi | 7.50 | .. | .. | .. | .. | 7.50 | 0.4 |
| Mali + | 7.80 | .. | .. | .. | 6.00 | 13.80 | 0.8 |
| Mauritania +* | .. | .. | 4.64 | .. | .. | 4.64 | 0.3 |
| Mauritius | 2.70 | .. | .. | .. | .. | 2.70 | 0.1 |
| Morocco* | .. | .. | 8.10 | .. | .. | 8.10 | 0.4 |
| Nicaragua | .. | .. | .. | .. | 18.60 | 18.60 | 1.0 |
| Niger + | 5.40 | .. | .. | .. | .. | 5.40 | 0.3 |
| Pakistan + | .. | .. | .. | .. | 150.00 | 150.00 | 8.3 |
| Panama | .. | .. | .. | .. | 8.88 | 8.88 | 0.5 |
| Republic of Korea | .. | .. | .. | .. | 190.08 | 190.08 | 10.5 |
| Rwanda + | 2.00 | .. | .. | 1.00 | .. | 3.00 | 0.2 |
| Senegal + | 7.50 | .. | .. | .. | 18.60 | 26.10 | 1.4 |
| Sierra Leone + | 3.60 | .. | .. | 1.29 | 5.88 | 10.77 | 0.6 |
| Somalia +* | .. | .. | 7.21 | 4.30 | .. | 11.51 | 0.6 |
| Sri Lanka + | .. | .. | .. | 2.00 | 52.20 | 54.20 | 3.0 |
| Sudan +* | .. | 11.59 | 37.03 | 2.00 | 34.44 | 85.06 | 4.7 |
| Swaziland | 4.20 | .. | .. | .. | .. | 4.20 | 0.2 |
| Syrian Arab Republic* | .. | 5.51 | .. | .. | .. | 5.51 | 0.3 |
| Togo | 0.90 | .. | .. | .. | .. | 0.90 | – |
| Tunisia* | .. | 4.05 | .. | .. | .. | 4.05 | 0.2 |
| Uganda + | 11.30 | .. | .. | .. | 23.04 | 34.34 | 1.9 |
| United Republic of Cameroon | 5.7 | .. | .. | 0.62 | 5.52 | 11.84 | 0.7 |
| United Republic of Tanzania + | 14.20 | .. | .. | 8.81 | 37.80 | 60.81 | 3.4 |
| Upper Volta + | 5.40 | .. | .. | .. | .. | 5.40 | 0.3 |
| Uruguay | .. | .. | .. | .. | 81.72 | 81.72 | 4.5 |
| Yemen +* | .. | .. | 10.86 | .. | .. | 10.86 | 0.6 |
| Zaire | | .. | .. | .. | 54.00 | 66.40 | 3.7 |
| Zambia | 12.70 | .. | .. | .. | .. | 12.70 | 0.7 |
| Total | 164.25 | 24.71 | 79.00 | 98.25 | 1439.12 | 1805.33 | 100.0 |

TABLE 10 *(continued)*

**Disbursements by selected multilateral funds and institutions financed largely or exclusively by OPEC countries, January 1973-June 1975**

*(Million dollars)*

| *Recipient country* | *AFPLAC*[a] | *AFESD*[b] | *OAPEC-SAAPIC* | *United Nations special account*[c] | *IMF-oil facility*[d, e] | *Total* | *Share of recipient (percentage)* |
|---|---|---|---|---|---|---|---|
| *of which:* | | | | | | | |
| Arab countries* . . . . | – | 24.71 | 79.00 | 7.30 | 54.12 | 165.13 | 9.1 |
| The most seriously affected countries + . . . . . | 114.00 | 11.59 | 70.90 | 98.25 | 836.60 | 1131.34 | 62.7 |
| Non-Arab African countries . . . | 164.25 | | | 20.12 | 279.20 | 462.13 | |

*Source:* UNCTAD secretariat, based on data received from other international agencies.

* As defined by membership in the League of Arab States.

\+ See the corresponding foot-note in table 6.

a Includes disbursements made by Algeria through AfDB to the United Republic of Cameroon, Ghana, Guinea, the Ivory Coast, Niger, Togo and Upper Volta.

b Converted at the rate of KD 1.00 = $3.4985 (30 June 1975).

c Disbursements as at 16 June 1975; as at 21 August 1975, OPEC countries has provided 66.3 per cent of the total amount paid into the United Nations Special Account.

d As at 31 July 1975, OPEC countries had provided 87 per cent of the loans to the IMF oil facility.

e Converted at the rate of SDR 1.00 = $1.20.

TABLE 11

**OPEC concessional financial flows as share of total financial flows* to developing countries and multilateral institutions, January 1973-June 1975**

*(Percentages)*

| *Donor* | *Commitments* 1973 | 1974 | 1975 January-June | *Disbursements* 1973 | 1974 | 1975 January-June |
|---|---|---|---|---|---|---|
| Algeria | 100.0 | 100.0 | | 100.0 | 100.0 | |
| Iran | 77.6 | 83.6 | 79.6 | 11.8 | 60.8 | 53.4 |
| Iraq | 100.0 | 91.7 | 100.0 | 100.0 | 100.0 | 100.0 |
| Kuwait | 58.1 | 65.1 | 36.8 | 63.8 | 69.9 | 48.9 |
| Libyan Arab Republic | 77.4 | 70.2 | 20.6 | 55.4 | 79.5 | 66.9 |
| Nigeria | 85.1 | 8.5 | 71.4 | 83.3 | 7.7 | – |
| Qatar | 85.1 | 74.8 | 100.0 | 100.0 | 95.5 | 100.0 |
| Saudi Arabia | 84.7 | 59.4 | 97.3 | 95.1 | 63.6 | 35.8 |
| United Arab Emirates | 88.2 | 77.5 | 90.1 | 97.1 | 86.3 | 95.9 |
| Venezuela | 100.0 | 15.6 | 0.1 | 100.0 | 10.2 | 7.6 |
| Total | 77.0 | 66.2 | 61.0 | 72.7 | 66.3 | 48.6 |

* Excluding IMF oil facility.

# DOCUMENT TD/193

## Multilateral action for expanding the trade and economic relations between countries with different economic and social systems, in particular action which would contribute to the development of developing countries

### *Report by the UNCTAD secretariat*

[*Original: English*]
[*12 February 1976*]

CONTENTS



### *Introduction*

(i) The present report was prepared pursuant to the decision of the Trade and Development Board at its fifteenth session to include trade relations among countries having different economic and social systems as one of the substantive items of the provisional agenda for the fourth session of the Conference. Within the wide range of problems involved, "multilateral action for expanding the trade and economic relations between countries with different economic and social systems, in particular action which would contribute to the development of developing countries" has specifically been selected for consideration by the member countries.[1]

(ii) An attempt to identify the problem areas which deserve the special attention of interested governments has been made in the present report. Against the background of the present state of trade and economic co-operation among countries having different economic and social systems, it makes various suggestions for possible multilateral action by UNCTAD. These suggestions should be considered in conjunction with actions which might be envisaged within the context of other items on the Conference agenda and in which the socialist countries might participate.

[1] Item 15 of the provisional agenda of the Conference. For the text adopted, see *Proceedings of the United Nations Conference on Trade and Development, Fourth Session*, vol. I (*op. cit.*), part three, sect. E.

CHAPTER I

### *Main features of the present stage of trade and economic co-operation among countries having different economic and social systems*

1. The urgent character of many problems of world economic development has brought to the fore the need for a more active involvement of countries having different economic and social systems in the restructuring of the present international economic order. The resolutions adopted by the General Assembly at its sixth and seventh special sessions, as also the Charter of Economic Rights and Duties of States,[2] stressed the need to establish a new international economic order which should be based, *inter*

[2] General Assembly resolution 3281 (XXIX) of 12 December 1974.

*alia*, on "co-operation among all States, irrespective of their economic and social systems".[3] This new economic order further presupposes changes in the traditional proportions in the structure of the international division of labour. It is obvious that further development of commercial and economic relations among countries with different systems, especially between socialist countries of Eastern Europe and developing countries, would directly serve these purposes. A detailed discussion of the main issues in trade and economic co-operation between these two groups of countries is contained in chapter II below.

2. The socialist countries of Eastern Europe are parties to the process of restructuring the existing international economic order through their traditional bilateral trade and economic co-operation with the other countries, and it may be assumed that this practice will be continued in the future. In recent years, the socialist countries have also been introducing multilateral approaches on an ever-increasing scale.

3. The strengthening of the economic potential of the socialist countries creates the necessary prerequisites for a more active participation of these countries in trade and economic co-operation, with both the developing countries and the developed market-economy countries. Policies pursued by the CMEA member countries in recent years, which have been aimed at saving and at concentrating capital investment on the most effective output through the intensification of national production, have resulted in high rates of economic growth throughout the area, which in turn have generated additional import demand and created new co-operation opportunities.

4. The trend towards a growing reliance by the socialist countries of Eastern Europe on the utilization of external economic factors in the course of the implementation of their five-year plans was reflected in the marked acceleration in the growth of the volume of their foreign trade, both in comparison with the levels achieved in the past and with the planned targets for 1971-1975. While the impact of these developments was felt in every major direction of their trade, it was particularly significant with respect to trade and economic relations with countries having different economic and social systems. These changes within the economies of the socialist countries of Eastern Europe, generated among other factors by the process of socialist economic integration, are expected to have a noticeable impact on the economic co-operation of the socialist countries of Eastern Europe with the rest of the world.

5. The necessary preconditions are being created for promoting further economic co-operation among countries with different systems through the continuation of the process of détente. An important step in this direction has been made by the Conference on Security and Co-operation in Europe. The basic principles of relationships between participating States as formulated in the Final Act of the Conference, in view of their universal character, are of much wider application. A specific reference was made in the Final Act of the Conference to the interests of the developing countries throughout the world which should be taken into account by the participating States.[4]

6. Favourable political developments on the world scene ensured the rapid expansion of East-West trade and economic co-operation during the first half of the 1970s. The steady growth of this flow of trade in value terms was accompanied by an expansion also in terms of volume, with a regularity that even surpassed that of world trade (see table below). East-West business arrangements, which have in recent years become long-term and comprehensive, offer to the participants the advantages of significantly increased stability of purchases and sales in an otherwise uncertain world economic environment.

7. The continuous growth of East-West economic relations has been significant also in terms of its qualitative development because the increase in trade has been accompanied both by structural changes and by institutional innovations. Both sides in East-West relations have continued to seek means of using more effectively the possibilities of extending co-operation between them beyond the traditional forms of commerce. The common desire to introduce stability into East-West economic relations has found expression at the governmental level in the conclusion of a large number of long-term agreements (up to ten years) on economic, industrial, technical and other forms of co-operation, which provide a general framework for more specific arrangements.

8. Particular emphasis in these new agreements has been placed on the encouragement of direct co-operation between particular industries, as well as on the promotion of joint co-operation projects in third countries. Moreover, these long-term agreements have established a set of targets (including the identification of broad areas of co-operation, as well as the selection of specific large-scale projects for eventual implementation) and have provided for the necessary institutional machinery (in the form of joint commissions and working groups both at intergovernmental and at business levels) aimed at the promotion of negotiations leading to the conclusion of contracts of far-reaching importance.

9. Further expansion of East-West trade relations would provide new opportunities for the expansion of East-South and West-South relations, as well as tripartite links. Multilateral ventures would seem to be especially promising, since they could be the source of the capital goods, credits and know-how necessary for establishing and expanding both precessing and extracting industries and other branches of the economies of the developing countries. They can also contribute to the development of markets for exports of manufactures from the developing countries themselves.

[3] Declaration on the Establishment of a New International Economic Order (General Assembly resolution 3201 (S-VI) of 1 May 1974).

[4] *Final Act of the Conference on Security and Co-operation in Europe* (signed at Helsinki 1 August 1975) (Lausanne, Imprimeries réunies), p. 89, "Co-operation in the field of economics, of science and technology and of the environment".

**Foreign trade of the socialist countries of Eastern Europe in 1971-1974**

| | *(Million dollars f.o.b.)* | | | | *Percentage increase over previous year* | | | |
|---|---|---|---|---|---|---|---|---|
| | *1971* | *1972* | *1973* | *1974* | *1971* | *1972* | *1973* | *1974* |
| EXPORTS | | | | | | | | |
| *World* . . . . . . . . . . . . . . . . . . . . . *of which:* | 36 173 | 39 881 | 52 683 | 66 523 | 17.1 | 10.3 | 32.1 | 26.3 |
| Developed market-economy countries . . | 8 103 | 8 892 | 13 405 | 19 985 | 19.6 | 9.7 | 50.8 | 49.0 |
| Developing countries . . . . . . . . . . . . | 5 358 | 5 564 | 7 951 | 10 982 | 12.7 | 3.9 | 42.9 | 38.1 |
| Socialist countries of Eastern Europe. . . | 21 412 | 24 178 | 29 838 | 33 884 | 16.7 | 12.9 | 23.4 | 13.6 |
| IMPORTS[a] | | | | | | | | |
| *World* . . . . . . . . . . . . . . . . . . . . . *of which:* | 35 097 | 40 295 | 53 400 | 68 734 | 16.3 | 14.8 | 32.5 | 28.7 |
| Developed market-economy countries . . | 9 038 | 11 256 | 17 063 | 25 028 | 15.0 | 24.5 | 51.6 | 46.7 |
| Developing countries . . . . . . . . . . . . | 3 873 | 4 032 | 5 783 | 9 058 | 11.8 | 4.1 | 43.4 | 56.6 |
| Socialist countries of Eastern Europe. . . | 21 527 | 24 265 | 29 625 | 33 543 | 17.2 | 12.7 | 22.0 | 13.2 |
| TURNOVER[a] | | | | | | | | |
| *World* . . . . . . . . . . . . . . . . . . . . . *of which:* | 71 270 | 80 176 | 106 083 | 135 257 | 16.7 | 12.5 | 32.3 | 27.5 |
| Developed market-economy countries . . | 17 141 | 20 148 | 30 468 | 45 013 | 17.1 | 17.5 | 50.0 | 47.7 |
| Developing countries . . . . . . . . . . . . | 9 231 | 9 596 | 13 734 | 20 040 | 12.3 | 4.0 | 43.1 | 45.9 |
| Socialist countries of Eastern Europe. . . | 42 939 | 48 443 | 59 463 | 67 427 | 17.0 | 12.8 | 22.7 | 13.4 |

*Source:* National statistics of the socialist countries of Eastern Europe.

[a] Hungary c.i.f.

10. Actual experience with long-term, large-scale economic arrangements, including "product-pay-back" schemes and various forms of industrial co-operation in East-West economic relations could also provide useful patterns for the developing countries in their search for appropriate arrangements.

11. However, certain aspects of East-West trade and economic co-operation call for serious improvement. The expansion of this flow of trade in recent years has been to a considerable extent hampered by the fact that the export trade of the socialist countries of Eastern Europe did not match the East-bound flow of goods and services. As a consequence, socialist countries resorted to medium- and long-term credits from the Western countries. As a result, the group of socialist countries of Eastern Europe found itself in a position of ever-growing over-all deficit vis-à-vis the West.[5] Since increases in the above-mentioned balance could not be regarded as a welcome phenomenon, the two groups of countries should spare no effort to correct the present situation.

12. There are several reasons for this sizeable imbalance in East-West trade. One lies in the shortcomings in the commodity structure of East-West trade, which is partly due to the insufficient ability of the socialist countries of Eastern Europe to promote sales of their machinery and equipment and other manufactured products. In addition, the existence of certain types of discriminatory barriers applicable to the goods of the socialist countries, the limited application or even the non-application to socialist countries of the "most-favoured-nation" treatment remain a hindrance to the more extensive rise of East-West trade and economic co-operation.

13. The need for all countries involved in world trade to observe strictly the principles of non-discrimination, of mutual benefit and of non-interference in the internal affairs of other countries was once again underlined in the resolutions of the General Assembly and in the Charter of Economic Rights and Duties of States, so that determined and conscientious efforts can be undertaken to promote further world-wide international trade and economic co-operation.

[5] For specific details, see "Statistical review of trade among countries having different economic and social systems" (UNCTAD/TSC/26).

CHAPTER II

### *Trade and economic co-operation between socialist countries of Eastern Europe and developing countries*

14. Since the third session of the Conference, trade and economic co-operation between socialist countries of Eastern Europe and developing countries have been considerably intensified. In the period 1971-1974, the development of trade between the two groups of countries showed a particularly rapid increase, with total turnover growing at an annual compound rate of 21 per cent and thus substantially exceeding both the rate of increase in the trade of the socialist countries of Eastern Europe with the world as a whole (17.5 per cent) and also the rate of increase in trade between the socialist countries themselves (12 per cent).[6]

15. These rates of growth may be attributed to a great extent to the trade-generating policy measures adopted in recent years by socialist and developing countries, which have become increasingly aware that considerable unused opportunities exist. Economic relations have been extended on a wider basis to cover some new fields of activity, such as co-operation and specialization in production. A valuable contribution to the development of their mutual trade has been made through various new approaches and institutional innovations, such as the conclusion of a considerable number of intergovernmental agreements on technical and scientific co-operation in addition to traditional trade and economic co-operation agreements, the setting up of permanent mixed intergovernmental commissions and the establishment, in some cases, of working groups on co-operation in planning, etc.

16. Nevertheless, trade with the socialist countries of Eastern Europe still represents only a limited part of the developing countries' over-all trade. Remedial measures by both governments and international organizations are called for to solve the various related problems and overcome existing constraints.

17. The analysis of recent developments has revealed that traditional concepts of promoting trade among countries having different economic and social systems are becoming increasingly insufficient since trade is being gradually integrated into a comprehensive system of economic co-operation. In previous reports prepared by the UNCTAD secretariat,[7] the adoption of a new approach conducive to comprehensive co-operation promotion was regarded as one of the most efficient methods in the effort to further enhance the development of trade and economic relations between the socialist countries of Eastern Europe and the developing countries.

18. The necessity of introducing such a new approach was confirmed in particular by Conference resolution 53 (III) (sect. I, para. 3), which recommended "that developing countries and socialist countries of Eastern Europe, whenever it is considered mutually convenient, continue their efforts to expand and diversify trade between them, particularly on a long-term basis, as well as all other forms of economic, industrial, scientific and technical co-operation".

19. Past experience, in particular that accumulated in trade between the socialist and the developing countries, has fully justified such an approach. It is noteworthy that more developed and diversified trade and economic relations between socialist countries and the developing countries have been attained in those cases where the parties involved have succeeded in applying a comprehensive approach based on a set of measures mutually complementing each other and covering various fields of co-operation. The socialist countries of Eastern Europe and the developing countries should direct their efforts towards promoting the wider application of such a comprehensive approach in their mutual trade and economic relations.

20. To facilitate this new trend, in addition to promoting purely commercial links, UNCTAD might contribute to the promotion of co-operation between socialist countries of Eastern Europe and developing countries through the elaboration of multilateral guidelines and criteria designed to assist the interested governments in conceiving policy measures aimed at a more comprehensive co-operation embracing trade, economic and industrial co-operation, transfer of technology, technical assistance, etc.

21. Co-operation in planning has emerged in recent years as a new feature in, and factor for, the intensification of the economic relations between socialist and developing countries. This is particularly important at a time when the countries concerned, both socialist and developing, are in the process of elaborating their mid- and long-term plans and development programmes. Joint groups for co-operation in planning have recently been established within the framework of a number of mixed intergovernmental commissions for the purpose of dealing specifically with problems and proposals aimed at exchanging experience and information in the fields of economic forecasts, methods of planning, evaluation of projects and, by mutual agreement, introducing provisions in the plans of the respective countries which would further facilitate the implementation of co-operation projects. It is expected that these activities will lead to a higher degree of trade-creating co-operation and specialization in production, as well as to the broader reflection of trade needs of developing countries in the long-term plans of the socialist countries of Eastern Europe.

22. In view of the growing role of planning in developing countries' economic management in recent years and the vast experience of the socialist countries of Eastern Europe in this sphere, multilateral efforts in the field of planning could be of particular importance in the context of UNCTAD's contribution to the establishment of a new international economic order. As an initial step in this direction, *ad hoc* (or regular) meetings of representatives of

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[6] For more detailed information, *ibid.*

[7] Documents TD/125 and TD/126, reproduced in *Proceedings of the United Nations Conference on Trade and Development, Third Session*, vol. IV, *General review and special issues* (United Nations publication, Sales No. E.73.II.D.7).

planning authorities between developing countries and socialist countries of Eastern Europe may be convened to discuss the long-term prospects for trade and co-operation and, *inter alia*, possibilities for specialization in production.

23. Tripartite industrial co-operation, involving enterprises/organizations of socialist countries of Eastern Europe, developing countries and developed market-economy countries, will probably become a particularly promising area of multilateral action within UNCTAD in the near future. The secretariat has recently identified a considerable number of such industrial co-operation arrangements, either completed or in course of implementation, and there is a need to encourage them in view of the interest shown in this kind of multilateral economic co-operation activity by the three groups of countries. The United Nations General Assembly at its seventh special session endorsed the efforts of UNCTAD in this field and expressed the hope that they could lead to constructive proposals for the industrialization of developing countries.[8]

24. A seminar of experts was convened by the Secretary-General of UNCTAD in accordance with paragraph 12 of agreed conclusion 112 (XIV) of the Trade and Development Board "to examine ways and means of promoting industrial specialization through various forms of multilateral co-operation".[9] The experts felt that UNCTAD had embarked on a potentially important field of co-operation among developing, socialist and developed market-economy countries. UNCTAD could contribute to further promoting this type of industrial co-operation through research on various relevant aspects as well as to facilitating a timely flow of information. Furthermore, there is a need for UNCTAD to take full advantage of the accumulated experience of ECE in East-West economic co-operation and to co-ordinate its activities in this field with UNIDO.[10]

25. An important form of co-operation between the two groups of countries is the economic assistance of the CMEA countries related to the execution of projects in the sphere of industrial and agricultural production, the opening-up of natural resources, the improvement of infrastructure, etc. Such assistance is directly involved in the implementation of economic plans and programmes, and in the diversification of the export potential of the developing countries.

26. During the first half of the Second United Nations Development Decade, the socialist countries of Eastern Europe increased the volume of their economic assistance to the developing countries. The forms and conditions of this assistance varied, depending both on the stage of economic development of the CMEA countries themselves and on the economic position of individual developing countries in the world economy. This assistance is being rendered at low interest rates, with extended periods of repayment, as well as repayment terms which in most cases, in addition to exports of the traditional items of the developing countries, also cover, exports of the production of their manufacturing industries. However, in some cases developing countries, for various reasons, such as lack of appropriate information on existing possibilities and technologies in the socialist countries, have not been able to use in full the ressources which were placed at their disposal by the socialist countries of Eastern Europe.

27. In order to facilitate the economic development process of developing countries, efforts should be made further to enlarge and improve the economic assistance provided by the socialist countries of Eastern Europe. An increase in the provision of credit facilities by the socialist countries of Eastern Europe for their deliveries of goods and services on concessional terms, which are particularly relevant for the most seriously affected developing countries in cases where they encounter payments problems in their trade with socialist countries, would contribute to the further expansion of mutual economic relations.

28. Additional efforts should be undertaken in the sphere of payments relations between the socialist countries of Eastern Europe an developing countries, although the trade deficits of developing countries are largely financed by the socialist countries on the basis of intergovernmental credit arrangements which thus serve to supply developing countries with the machinery and equipment necessary for the industrialization process. On the other hand, the growing indebtedness of the developing countries cannot be considered a healthy phenomenon and efforts on the part of both the socialist countries and the developing countries themselves should be undertaken to find a solution to the existing problems.

29. In spite of the progress achieved in recent years, the geographical pattern of trade between socialist countries of Eastern Europe and developing countries is still limited and there is a need to diversify it. The commodity structure of this trade should also be improved. This appears to be an important objective in the framework of the establishment of a new international economic order. In addition to the above suggestions designed to expand the co-operation in a comprehensive way, the experience gained in East-West trade can also be fruitfully applied to promote and diversify trade and economic and industrial co-operation between socialist and developing countries.

30. A valuable contribution towards the enlargement of the geographical basis of trade among socialist and developing countries could be ensured through the more intensive utilization of the consultative machinery established within UNCTAD, intensified technical assistance by the UNCTAD secretariat, closer co-operation between the UNCTAD secretariat and the United Nations regional commissions when organizing such multilateral activities as consultations, dissemination of information, technical assistance, and so on.

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[8] General Assembly resolution 3362 (S-VII) of 16 September 1975 entitled Development and international economic co-operation, section IV, para. 5.

[9] *Official Records of the Trade and Development Board, First part of the Fourteenth Session, Supplement No. 1* (TD/B/532), p. 8.

[10] See the report of the Seminar on Industrial Specialization through Various Forms of Multilateral Co-operation (TD/B/599).

CHAPTER III

## *Possibilities resulting from recent institutional developments within the CMEA*

31. In the period between the third and fourth sessions of UNCTAD, the socialist countries members of CMEA have completed execution of their five-year plans covering the years 1971-1975 and set out guidelines for their economic development for the next plan period and beyond.

32. The process of economic development of the socialist countries has been largely influenced by the implementation of the Comprehensive Programme for the further extension and improvement of co-operation and the development of socialist economic integration by the CMEA member countries, adopted in 1971 at the twenty-fifth session of the CMEA. This long-term Comprehensive Programme is intended to be implemented over a period of 15 to 20 years. It provides for the co-ordination of medium-term and long-term plans by the CMEA countries as a main instrument of ensuring their economic and social progress.

33. The experience gained by the socialist countries in the process of plan co-ordination and the implementation of large-scale economic projects could be used by the developing countries in both trade and economic relations with socialist countries, as well as between the developing countries themselves. The socialist countries might more widely share this experience, in particular by providing relevant information to the interested developing countries through the CMEA secretariat.

34. The socialist economic integration process is intended mainly to ensure the rapid economic development of the member countries. However, CMEA has already shown a certain flexibility in elaborating appropriate modalities for the purpose of opening its facilities to non-member countries. The participation of Yugoslavia over an extended period in selected fields of activities of CMEA could be cited as one example.

35. As was restated in the Comprehensive Programme, "the international socialist division of labour is effected with due account taken of the world division of labour".[11] The Comprehensive Programme contains a provision which enables any non-member country to participate fully or in part in the implementation of measures envisaged in the Programme. At present, CMEA is enlarging the scope of its external relations with third countries belonging to different socio-economic systems. The signing of an agreement between CMEA and Finland on economic co-operation and the setting-up of a Joint Commission in which all the CMEA countries and Finland are represented, may be cited as the most recent examples of this trend, as well as two agreements on co-operation signed in 1975 by Iraq and Mexico with CMEA. This is a welcome trend and the interested parties should be encouraged to develop it further.

36. Promising developments have been going on in the sphere of payments arrangements of the CMEA countries. Thus, the "Basic principles for effecting settlements in transferable roubles of the International Bank for Economic Co-operation (IBEC) member countries with non-member countries of IBEC", prepared in 1972, opened up possibilities for other countries to effect payments on a multilateral basis with all or individual IBEC member countries in all or separate trade transactions. A number of developing countries have recently established contacts with the two international banking institutions of the CMEA member countries to study the feasibility of using transferable roubles in payments arrangements with members of IBEC (see also paragraphs 38 and 39 below).

37. The CMEA member countries have also taken additional steps to ensure further expansion of their trade and economic relations with the developing countries. Thus, in 1974 the CMEA member countries set up a special fellowship fund to provide assistance to the developing countries in the formation of their cadres.

38. Within the framework of the International Investment Bank (IIB) a Special Fund for financing programmes of economic and technical assistance to developing countries has recently been established. The amount of the resources placed at the disposal of the Special Fund has been set at one billion transferable roubles for the purpose of granting long-term credits for periods up to 15 years to the developing countries.

39. In view of the potential importance which the allocation of resources from the Special Fund might have on the expansion of trade relations of the CMEA countries and the developing countries, as well as on the acceleration of the economic development process of the latter, it might be appropriate to suggest that the CMEA countries, in addition to the existing framework (as stipulated in "Terms and conditions of granting, using and repayment of credits at the expense of the Special Fund",[12] elaborate a specific procedure to enable the developing countries, including the least developed among them, to avail themselves more effectively of the possibilities offered by the CMEA member countries. Such a suggestion, addressed to the CMEA secretariat or directly to IIB, appears to be even more timely since it may pave the way for the possibility of linking together the system of multilateral settlements in transferable roubles within IBEC and the availability of credits from the Special Fund of IIB, in view of the fact that 95 per cent of the Fund's resources are in transferable roubles.

40. In the light of recent developments which include the CMEA integration process and industrial co-operation, which rapidly acquired prominence, for example, in East-West economic relations, the traditional approach, which encompassed access to markets, diversification of the geographical and commodity structure of trade, multi-

[11] Comprehensive Programme for the further extension and improvement of co-operation and the development of socialist economic integration by the CMEA member countries, chap. I, sect. 1, para. 3.

[12] Publication of the International Investment Bank, (Moscow, 1974).

lateralization of payments arrangements and some other issues, should gradually evolve towards the elaboration of long-term schemes of trade and economic co-operation among countries with different systems. As a first step in this direction, the CMEA member countries might be requested to co-operate on a multilateral and bilateral basis in working out forecasts, as envisaged in the Comprehensive Programme, for the key fields of the economy, science and technology, using among other methods "the exchange of experience on the methods and organization of forecasting in the CMEA member-countries, the generalization of that experience and also of the experience of other countries".[13] The interest manifested by a number of developing countries in the establishment of a broader framework for regulating their economic co-operation with the CMEA countries suggests that new measures should be envisaged to meet the requirements of this new objective.

## CHAPTER IV

### *Technical assistance activities*

41. At its third session, the Conference, in its resolution 53 (III), invited the Secretary-General of UNCTAD "to promote the dissemination of information on the legal forms and organizational systems of foreign trade and commercial practices in the socialist countries of Eastern Europe..., bearing in mind especially the needs of the developing countries" (sect. VI, para. (*c*)). Under that mandate, the secretariat has recently expanded the scope and, in particular, the channelling of its technical assistance activities in the area of trade among countries having different economic and social systems. Furthermore, the Trade and Development Board, in paragraph 8 of its agreed conclusion 112 (XIV), stressed that UNCTAD should intensify its contribution to overcoming deficiencies of mutual knowledge regarding practices in trade and economic relations among countries having different economic and social systems, and that such action should be supported by technical assistance efforts.[14]

42. With a view to meeting this objective, UNCTAD began implementing in May 1975 a UNDP interregional project in co-operation with the International Trade Centre UNCTAD/GATT. Within the framework of the project, a high-level workshop was held in October 1975, and training courses are being organized for 1976 in order to enable selected government officials and representatives of the public and private sectors in developing countries to obtain a broader and deeper knowledge of the trade policies of the socialist countries and the opportunities for expanding trade between them and their own countries.

43. Furthermore, in response to specific requests by developing countries, the UNCTAD secretariat has provided the necessary backing, on an *ad hoc* basis, for certain activities designed to enable these developing countries to have direct access to information on the trade policies of the socialist countries of Eastern Europe. Thus, at the request of the Government of the Philippines and in close co-operation with UNDP and the socialist countries of Eastern Europe, an information study tour was organized for a group of senior government officials from the Philippines to acquaint them with the techniques and modalities of the trading and economic co-operation arrangements of the socialist countries of Eastern Europe.

44. At the first part of the fifteenth session of the Trade and Development Board, developing countries urged the UNCTAD secretariat to expand its technical assistance activities in this field in order further to promote trade between them and the socialist countries of Eastern Europe.

45. The attainment of the objectives pursued by UNCTAD in the sphere of trade and economic co-operation between the two groups of countries could be further enhanced by the provision of technical assistance through the implementation of a series of measures including the dissemination of information on trade policies and practices of socialist countries of Eastern Europe and any relevant experience of developing countries, the training of representatives of developing countries, in particular from the least developed among them, by means of periodic courses covering a wide range of trade and economic policies of socialist countries of Eastern Europe and the organization of study tours for government officials and business representatives from developing countries.

46. The consultative machinery within UNCTAD in the field of trade and economic co-operation among countries having different economic and social systems, which is closely related to the technical assistance activities of the secretariat, should be further strengthened in view of the positive results obtained so far.

47. Close co-operation in this field should be established among the countries concerned, UNCTAD and UNDP, as well as the United Nations regional commissions. The possibilities of the International Trade Centre UNCTAD/GATT should also be fully utilized.

## CHAPTER V

### *Contribution of UNCTAD*

48. In the light of what has been considered in the preceding chapters, it would be appropriate to examine how the contribution of UNCTAD could be made more effective in terms of its actual influence on trade and economic relations. The procedure followed hitherto, which consisted mainly of periodic discussions of the problems involved within the framework of a sessional committee of the Trade and Development Board, appears to be becoming increasingly inadequate in the present circumstances. It seems desirable that certain changes should be made in the existing machinery of UNCTAD designed to deal with problems in trade and economic co-operation among countries having different economic and social systems, pending future arrangements toward the establishment of a comprehensive international trade organization pursuant to Conference resolution 81 (III).

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[13] Chap. II, sect. 4, para. 8, of the Comprehensive Programme.

[14] *Official Records of the Trade and Development Board, First part of the Fourteenth Session, Supplement No. 1* (TD/B/532), p. 8.

49. At the fourth session of the Conference, the member countries might consider the feasibility of establishing a more flexible procedure for in-depth discussion, on a more permanent basis, of specific action-oriented problems of this particular flow of world trade.

50. Special attention may be given to a more frequent use of working parties, expert groups, seminars, etc., as an effective device in promoting multilateral action in the field of trade and economic co-operation between countries having different economic and social systems, in co-ordination, when appropriate, with United Nations regional commissions and other United Nations bodies.

51. The UNCTAD consultative machinery for dealing with problems in trade relations among countries having different economic and social systems could be made more flexible so as to enable the Secretary-General of UNCTAD to convene consultations at the request of interested countries. Topics for discussion might be enlarged in such a way as to cover not only traditional problems and areas of co-operation, but also new ones such as, for example, the proposed co-ordination of planning between interested countries. In order, in certain cases, to assist the developing countries, and in particular the least developed among them, to attend such consultations, UNCTAD should support appropriate requests to UNDP by interested governments for the financing of such participation through their national UNDP resources.

CHAPTER VI

## *Basic conclusions*

52. A new international economic order as defined in the Declaration adopted by the sixth special session of the General Assembly has to be based, *inter alia*, on "co-operation among all States, irrespective of their economic and social systems". The task of promoting trade among countries having different economic and social systems is, by virtue of General Assembly resolution 1995 (XIX), one of the principal functions of UNCTAD. In discharging this function, UNCTAD, as stipulated in various resolutions and decisions of the Conference, in particular in resolutions 15 (II) and 53 (III), is dealing with this flow of trade in its totality, promoting convergent economic and trade policies designed to facilitate the expansion of trade between socialist and developing countries and between socialist and developed market-economy countries, as well as tripartite co-operation among them.

53. Favourable conditions exist at present for the further expansion of trade and economic co-operation between countries having different economic and social systems. These favourable factors include the climate of détente, the strengthening of the economic potential of the socialist countries, and an ever-growing involvement of the socialist and developing countries in the restructuring of international economic relations.

54. The present state of trade and economic co-operation among countries having different economic and social systems, in particular between socialist and developing countries, would suggest that while this co-operation has been in the process of quantitative expansion and has been undergoing structural changes, there are still considerable possibilities which have not been fully used hitherto by all the parties. It is therefore important for all countries to promote this trade further in the context of a new international economic order through the utilization of traditional forms and methods and also through the wider introduction of multilateral efforts.

55. Trade and economic co-operation among these groups of countries, in particular between socialist and developing countries, might be further intensified by undertaking multilateral action designed to facilitate comprehensive co-operation promotion embracing trade, economic and industrial co-operation, transfer of technology, etc. The contribution of UNCTAD in this respect would be an attempt to elaborate multilateral guidelines and criteria which would assist the governments in conceiving trade policies to this end.

56. The attainment of this objective could also be promoted through the co-ordination of efforts between interested countries in the sphere of planning. In this respect, the convening of *ad hoc* (or regular) meetings of representatives of planning authorities of socialist and developing countries within UNCTAD to discuss the long-term prospects for trade and economic co-operation might be suggested. This would also contribute to the broader reflection of the trade needs of the developing countries in the economic development plans of the socialist countries of Eastern Europe.

57. Tripartite industrial co-operation between enterprises/organizations of socialist countries of Eastern Europe, developing countries, and developed market-economy countries promises to become in the near future a particularly favourable area of multilateral action. The first step in promoting this new development was the holding of a Seminar of experts on industrial specialization through various forms of multilateral co-operation, convened by the Secretary-General of UNCTAD, which concentrated mainly on tripartite industrial co-operation. In view of the potential importance of this innovative approach it would be appropriate to suggest the further continuation of UNCTAD work in this field, in co-ordination with UNIDO and the United Nations regional commissions.

58. The socialist countries of Eastern Europe might consider the possibility of further enlarging and improving their economic assistance to the developing countries. An increase in the provision of credit facilities by the socialist countries of Eastern Europe for their deliveries of goods and services on concessional terms, which are particularly relevant for the most seriously affected developing countries in cases where they encounter payments problems in their trade with socialist countries, would contribute to the further expansion of mutual economic relations.

59. Further efforts should be undertaken by both the developing countries and the socialist countries to expand the geographical pattern and diversify the commodity structure of trade between these two groups of countries.

In addition to measures of a more comprehensive nature (expansion of trade, economic and industrial co-operation, co-ordination of efforts in the sphere of planning, a better utilization of possibilities resulting from recent institutional developments within CMEA, etc.), which will contribute to the attainment of this goal, a more intensive utilization of the UNCTAD consultative machinery should also be envisaged.

60. Taking into account the accelerated expansion of East-West trade and economic co-operation in recent years, UNCTAD could be expected to contribute to ensuring that experience gained in East-West trade is utilized also in trade and economic co-operation between socialist and developing countries. In this connexion, the experience accumulated by ECE should be made available to the interested developing countries. However, as far as East-West trade is concerned, there still remains the problem of eliminating the existing imbalance of trade flows and its causes.

61. In order to identify areas for possible multilateral efforts resulting from the implementation of various measures by CMEA countries and, on this basis, to elaborate proposals for multilateral action within UNCTAD, it might be suggested that the Secretary-General of UNCTAD enter into appropriate consultations with both the CMEA member countries and the CMEA secretariat.

62. International banking institutions of the CMEA member countries – IBEC and IIB – might be requested in addition to the existing procedure to elaborate and provide the interested countries with specific guidelines which could enable the developing countries, in particular the least developed among them, to avail themselves more effectively of the facilities already established, such as the system of multilateral settlements in transferable roubles between the CMEA countries and non-members of the CMEA, or the credit facilities offered by the Special Fund of IIB.

63. In order to overcome the inadequacy of the knowledge of the possibilities for the mutually advantageous expansion of trade between developing and socialist countries, and of the positive contribution which could be made towards this expansion by the application of a comprehensive co-operation approach, it is necessary to explore the possibility of elaborating within UNCTAD a programme of technical assistance activities, which would include the dissemination of information, training and the organization of business contacts, in particular through the extension beyond the present time-limit of the current UNDP/UNCTAD interregional project, "Training programme for the development of trade between socialist countries of Eastern Europe and developing countries". Closer co-operation in this field should be established among the countries concerned, UNCTAD and UNDP, as well as United Nations regional commissions. The possibilities of the International Trade Centre UNCTAD/GATT should also be fully utilized.

64. The existing machinery within UNCTAD designed to deal with problems in trade and economic co-operation between countries having different economic and social systems, in particular between socialist and developing countries, could be improved, taking into account the desirability of establishing a procedure to discuss the problems involved in depth on a more permanent basis and of strengthening the UNCTAD consultative procedure by making it more flexible and enlarging the range of topics for discussion.

65. The fourth session of the United Nations Conference on Trade and Development is expected to take a further step in promoting trade and economic co-operation among countries having different economic and social systems, in particular between socialist and developing countries, through the introduction of new forms of co-operation of a multilateral character in addition to already established forms, in view of the unique character of the responsibility of UNCTAD in this sphere.

## DOCUMENT TD/193/Supp.1

# Industrial specialization through various forms of multilateral co-operation

*Note by the UNCTAD secretariat*

[*Original: English*]
[*24 February 1976*]

1. Industrial co-operation in its various forms has been rapidly acquiring prominence in recent years in international economic co-operation. Multilateral industrial co-operation involving partners from socialist countries of Eastern Europe, developing countries and developed market-economy countries has attracted particular attention in view of the possibilities it affords of combining in an optimum mix the relative advantages which can be derived from industrial co-operation between enterprises/organizations in these three groups of countries.

2. Information gathered by the secretariat through its empirical research work, as well as through factual country reports prepared by qualified economists and experts from countries with experience in the field of industrial co-operation, has supplied further evidence that multilateral industrial co-operation, including tripartite arrangements, possesses an important potential for promoting the economic development of the developing countries.[1]

3. As distinct from the traditional pattern of trade based on the inter-sectoral division of labour, industrial co-operation among countries having different economic and social systems is conducive to an intra-branch division of labour and has created conditions for promoting trade on this basis.

4. The desire of the developing countries to modify the present pattern of the division of labour in the world appears to coincide with the policies of the socialist countries to enhance economic efficiency through progressive specialization and greater involvement in international trade. Consequently it may be assumed that conditions are being created for harmonizing the efforts of the two groups of countries and gradually making their economic structures complementary in selected fields through international specialization in production. Additional benefits could be mobilized through expanding the scope of industrial co-operation to include either developed market-economy countries or other socialist or developing countries.

5. 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 necessitates more than trade policy measures. To be successful, such undertakings should be generally based on comprehensive decision-making. Consequently, the expansion of trade through the promotion of economic complementarity, on both a bilateral and a multilateral basis, should be systematically considered as a specific policy objective.[2]

6. Multilateral forms of economic co-operation have proved particularly promising for the promotion of the industrialization process in developing countries in cases where they result in the specialization of each partner in certain products with the aim of supplying other partners with them. Thus, developing countries could find it beneficial to join efforts with other developing countries, particularly their neighbours, to create and exploit new possibilities in the socialist countries through co-operation and specialization in production. The socialist countries of Eastern Europe have already started this process by inviting groupings of developing countries to join specific projects.[3]

7. However promising for the process of industrialization of the developing countries, multilateral co-operation at the enterprise/organization level between countries having different economic and social systems is not confined to the industrial sector. There exist examples of multilateral projects in the fields of agricultural production, research and infrastructural development, which could serve as a model for future co-operation. But in view of the importance of industrialization for accelerating economic development and restructuring the economy of the developing countries the secretariat has concentrated its attention mainly on multilateral, including tripartite, forms of co-operation in the sphere of industry. Such an approach is supported by experience in the field of East-West industrial co-operation, which has become the most dynamic component in economic relations between socialist and developed market-economy countries; specific aspects of

[1] See above, document TD/193, para. 23.

[2] See the report by the UNCTAD secretrariat entitled "Expansion of trade through the promotion of complementary economic structures" (TD/125), reproduced in *Proceedings of the United Nations Conference on Trade and Development, Third Session*, vol. IV, *General review and Special issues* (United Nations publication, Sales No. E.73.II.D.7), pp. 135 *et seq.*

[3] See the study by the UNCTAD secretariat entitled "International specialization in industrial production and its impact on the expansion of trade and economic relations between the socialist countries of Eastern Europe and the developing countries" (UNCTAD/TSC/24).

this experience could also be used for the benefit of the developing countries.

8. The UNCTAD secretariat has been conducting research in the field of multilateral co-operation for a number of years within the context of trade and economic relations among countries with different systems. Several case studies have been prepared by the UNCTAD secretariat in pursuance of the mandate laid down in Conference resolutions 15 (II) and 53 (III) on specific aspects of and prospects for complementary economic structures between socialist countries of Eastern Europe and developing countries.[4]

9. Furthermore, the Trade and Development Board at its thirteenth session stated, in its agreed conclusion 99 (XIII), that it felt that the improved world political climate enhanced the scope for a further expansion of trade and economic relations between countries having different economic and social systems (para. 7) and that it considered that the secretariat should devote more attention to the analysis of issues related to the introduction of long-term and large-scale arrangements in trade and economic co-operation among these countries (para. 9).[5]

10. Pursuant to this decision a research project was undertaken by the UNCTAD secretariat on trade-creating industrial co-operation between enterprises of socialist and developing countries.[6] The Trade and Development Board at the first part of its fourteenth session considered the results of this project and on the basis of its findings adopted agreed conclusion 112 (XIV), in paragraph 9 of which it recognized that in view of the considerable expansion and diversification of trade and economic relations between countries with different systems, priority should be given by UNCTAD to well-defined topics supported by appropriate research documentation prepared by the secretariat.[7] The Board recommended as topics for further consideration, *inter alia*, identification of future possibilities for economic co-operation in specific areas, with a view to developing geographically larger co-operation and specialization schemes, and ways and means of promoting industrial co-operation, including tripartite industrial co-operation. The Board also invited the Secretary-General of UNCTAD to convene a seminar of experts to examine ways and means of promoting industrial specialization through various forms of multilateral co-operation.[8]

11. In pursuance of the decision of the Board, the Seminar was convened by the Secretary-General of UNCTAD in Geneva from 2 to 5 December 1975. Forty-six experts from 25 countries members of UNCTAD participated in the work of the Seminar either in their personal capacity or as designated by their governments.[9]

12. Both the Seminar of experts and the background research undertaken by the secretariat concentrated primarily on tripartite industrial co-operation, which involves enterprises or organizations located respectively in socialist countries of Eastern Europe, in developing and in developed market-economy countries.[10] Discussions held during the Seminar confirmed that UNCTAD has embarked on a potentially important field of co-operation which in economic terms could offer to the developing countries increased opportunities for securing economies of scale through specialization, as well as assured market outlets, thus broadening further the scope of international economic co-operation. Useful ideas and suggestions to that effect may be found in a number of studies prepared specifically for the Seminar by eminent experts from the socialist countries of Eastern Europe, developing countries and developed market-economy countries.[11]

13. The discussions at the Seminar covered a rather wide spectrum of issues related to tripartite industrial co-operation. They included a general review of the framework of multilateral industrial co-operation, its principal advantages and patterns, financial aspects, the possibilities for the transfer of technology in the framework of tripartite industrial co-operation, its legal aspects as well as future prospects and scope.

14. The in-depth discussion at the Seminar of the issues involved in promoting this type of co-operation showed that tripartite industrial co-operation is a multifaceted phenomenon. Its various aspects, which range from elaboration of a more precise definition of tripartite industrial co-operation to identification of measures to encourage proliferation of this type of co-operation project call for further study.

15. The attitude of experts from the developing countries at the Seminar towards tripartite co-operation tended to be more practically oriented, with an emphasis on such aspects as project planning and formulation, project implementation and project operation. With regard to project planning and formulation, it was pointed out that the scope for co-operation between the three groups of countries seemed to be quite promising, especially as concerns projects requiring complicated manufacturing processes of which the developing countries have little or no knowledge so far.

16. As far as project implementation is concerned, tripartite co-operation could assist developing countries in selecting the most appropriate technology to bridge the existing technological and production gap, as well as to

[4] See "Expansion of trade through the promotion of complementary economic structures: case study on Hungary" (TD/B/391) and "Trade aspects of international specialization between socialist and developing countries: case study on the Czechoslovak wood-working industry" (TD/B/451).

[5] *Official Records of the Trade and Development Board, Thirteenth Session, Supplement No. 1* (TD/B/476), p. 3.

[6] See *The scope of trade-creating industrial co-operation at enterprise level between countries having different economic and social systems* (United Nations publication, Sales No. E.75.II.D.16).

[7] *Official Records of the Trade and Development Board, First part of the Fourteenth Session, Supplement No. 1* (TD/B/532), p. 8.

[8] *Ibid.*, p. 9.

[9] See the report of the Seminar on industrial specialization through various forms of multilateral co-operation (TD/B/599 and Corr.1).

[10] See study by the UNCTAD secretariat entitled "Tripartite industrial co-operation" (TAD/SEM.1/2).

[11] See the report of the Seminar on industrial specialization... (TD/B/599 and Corr.1), annex II.

contribute to reducing the substantial part of the foreign earnings of the developing countries set aside for acquiring such technology.

17. It was emphasized by experts from developing countries at the Seminar that there is also considerable scope for tripartite co-operation in the sphere of procurement of machinery and equipment, in that an overwhelming majority of developing countries have not yet developed their own capital goods industries and consequently such machinery and equipment has to be imported from outside sources. In this case, tripartite co-operation should go beyond mere imports of such equipment to include also broader dissemination of information regarding the particulars of the equipment and its technical details, as well as ready availability of spare parts so as to enable the developing countries to choose the most competitive equipment.

18. As to the project operation, it was suggested that the scope of tripartite co-operation could be enlarged to include such spheres as training of personnel, supply of skilled manpower, supply of inputs, international marketing and export promotion.

19. Both the studies prepared by the secretariat and the results of the Seminar indicated that in view of the comparatively recent origin of tripartite co-operation, insufficiency of information on this sphere of co-operation is a major obstacle which should be overcome in order to contribute to a further in-depth study of various practical aspects of tripartite industrial co-operation (e.g. legal aspects, financing problems, possibilities for transfer of technology, etc.). A need was felt to ensure greater dissemination of information on the national foreign trade and economic conditions relevant to tripartite co-operation as well as on institutional aspects in connexion with the promotion of co-operation with developing countries, in particular through such forums as mixed commissions (intergovernmental and other).

20. In view of the diversity of problems which arise out of this new phenomenon, a close co-ordination of efforts is needed on the part of various United Nations bodies. Moreover, the experts stressed that UNCTAD should take full advantage of the experience accumulated by ECE in the sphere of East-West economic co-operation, and concentrate its efforts on genuinely integrated forms of tripartite co-operation in the developing countries.[12] It was considered appropriate that other regional commissions should also be called upon to contribute to the research on tripartite industrial co-operation on the basis of accumulated experience. Close co-ordination of efforts between UNCTAD and UNIDO should be ensured, taking into account particularly the experience of UNIDO in various aspects of the industrialization process in developing countries.

21. The Seminar could be regarded as the initial step towards the further promotion of tripartite industrial co-operation, and it has prepared the way for a continuation of the dialogue during the fourth session of UNCTAD in Nairobi with a view to identifying possibilities for "multilateral action for expanding the trade and economic relations between countries with different economic and social systems, in particular action which would contribute to the development of developing countries".[13]

22. In view of the important possibilities which the multilateral industrial co-operation, including its tripartite forms, could offer to the developing countries in promoting further the process of their economic development, it might be considered appropriate to entrust the secretariat with pursuing further its work in this direction, taking into account in particular various aspects of tripartite co-operation as suggested by the participants in the Seminar.[14]

23. Further activities in this sphere would be in line with the decision of the General Assembly, which in section IV, paragraph 5, resolution 3362 (S-VII) endorsed the efforts undertaken by UNCTAD on tripartite co-operation between countries having different economic and social systems and acknowledged that these efforts could lead to constructive proposals for the industrialization of developing countries, and thus would contribute towards promoting the establishment of the New International Economic Order. Such activities of the UNCTAD secretariat will fully correspond to the suggestions contained in the Manila Declaration and Programme of Action, which envisage, *inter alia*, "steps... by the developed market-economy countries and the socialist countries of Eastern Europe to expand multilateral, including tripartite, forms of economic co-operation to promote the interests of developing countries".[15]

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[12] *Ibid.*, para. 13.

[13] Agenda item 15 of the fourth session of the Conference.

[14] See the report of the Seminar on industrial specialization... (TD/B/599 and Corr.1), para. 8.

[15] *Proceedings of the United Nations Conference on Trade and Development, Fourth Session*, vol. I, (*op. cit.*), annex V, sect. VIII, para. 2.

# DOCUMENT TD/194*

## Institutional issues

### *Report by the Secretary-General of UNCTAD*

[*Original: English*]
[*22 April 1976*]

CONTENTS



## *Introduction*

1. The discussion of the restructuring of the economic and social sectors of the United Nations system is taking place at a time when the development issue is receiving renewed attention as a major factor in international relations and when governments are showing a new awareness of the need for serious negotiations to deal with the external economic problems confronting developing countries. Several factors have contributed to this awareness: perhaps foremost among them is the realization that the present crisis affecting the economies of a number of developed and developing countries calls for remedial measures which recognize the interdependence of global economic problems. Other factors include the concern about supplies of food and non-renewable resources; the effectiveness of concerted producer action in raising petroleum prices; the spread of organized developing country solidarity to virtually all international forums; and the assertion by the developing countries of their aspirations to a new international economic order. This new mood in international economic relations was demonstrated at the seventh special session of the General Assembly.

2. The meaning of this new mood is now being put to the test; it remains to be translated into real and lasting changes in the structure of the world economy. If the political will to effect such changes is forthcoming, the international community will require institutional machinery which, while providing for effective negotiating procedures on specific issues, will also involve the entire community in the process of formulating policies and taking decisions.

3. It is in this setting that the United Nations Conference on Trade and Development will consider at its fourth session institutional issues. As indicated in the wording of

* Incorporating document TD/194/Corr.1.

item 16 of the agenda,[1] the session will be an occasion for the States members of UNCTAD both to make recommendations on the future role of UNCTAD and to adopt decisions and guidelines on future institutional arrangements within UNCTAD.

4. It will be observed that this formulation reflects a procedural distinction between the two kinds of action which the Conference may take on institutional issues. On the one hand, in pursuance of section VII, paragraph 1, of General Assembly resolution 3362 (S-VII), the Conference should make recommendations to the Assembly concerning the future role of UNCTAD, in the context of the restructuring of the economic and social sectors of the United Nations system and in view of the need to strengthen the capacity of the United Nations to negotiate agreed and effective solutions to problems arising in international economic relations. Indeed, the *Ad Hoc* Committee on the Restructuring of the Economic and Social Sectors of the United Nations System established by the General Assembly under that resolution has made special provision in the schedule of work for its third session (to be held at United Nations Headquarters from 1 to 11 June 1976) to consider the recommendations of the Conference.[2] On the other hand, the Conference itself has the power and the responsibility, within the framework of General Assembly resolution 1995 (XIX), to take decisions concerning the structure and working methods of the UNCTAD machinery and ways of improving its effectiveness.[3]

5. However, the issues to which these different forms of action would apply are closely related in substance. Institutional improvements within UNCTAD would enhance its capacity to undertake the responsibilities which it might be called upon to fulfil in a reformed United Nations system and should not be considered in isolation from the broader restructuring questions. Thus, the various institutional issues before the Conference should be dealt with together.

6. In chapter IV of his report to the Conference (TD/183),[4] the Secretary-General of UNCTAD has presented his views on the future role of UNCTAD in the context of the restructuring of the United Nations system and has drawn attention to certain questions requiring examination with a view to improving and reforming the UNCTAD machinery in the light of his recommendations on the functions to be performed by UNCTAD. These matters are discussed further in the present report, in which some more specific observations and options are advanced concerning institutional arrangements within UNCTAD. The present report also contains, in its final chapter, some comments on longer-term issues in the field of trade, development and international economic co-operation.

7. Neither the present report nor that of the Secretary-General of UNCTAD seeks to draw up a blueprint for a new institutional framework. Their purpose is to assist governments in seeking solutions to some of the main problems which will confront them as they consider the future of UNCTAD.[5] The Secretary-General of UNCTAD hopes that the conjunction of the Conference process with that of the restructuring of the economic and social sectors of the United Nations system will stimulate a major substantive discussion of these issues among governments and will generate the necessary decisions by them.

## CHAPTER I

## *The role of UNCTAD in the context of the restructuring of the United Nations system*

### A. The economic and social functions of the United Nations system[6]

8. The restructuring of the United Nations system should be based on some criteria permitting a distinction between broad categories of activities. In making its recommendations for the regrouping of the economic and social activities of the United Nations, the Group of Experts on the Structure of the United Nations System drew a distinction between policy and research activities on the one hand and operational activities on the other, and proposed that the activities within each of these categories should be consolidated.[7] The main criteria used by the Group of Experts in this instance seem to have been financial as much as substantive, since most operational activities are financed by means of voluntary contributions.

9. In his report on institutional issues to the Board at its fifteenth session,[8] and again in chapter IV of his report to

[1] For the agenda, see *Proceedings of the United Nations Conference on Trade and Development, Fourth Session,* vol. I, (*op. cit.*), part three, sect. E.

[2] See the report of the *Ad Hoc* Committee on its first session, in *Official Records of the General Assembly, Thirtieth Session, Supplement No. 5* (A/10005 and Corr.1), para. 11 (*b*).

[3] On 20 May 1972, the Conference adopted resolution 80 (III) entitled "Review of the institutional arrangements of UNCTAD". As was the case in respect of that resolution, certain of the internal reforms which may be agreed upon by the Conference at its fourth session may require action by the General Assembly to amend resolution 1995 (XIX).

[4] See *New directions and new structures for trade and development: report by the Secretary-General of the United Nations to UNCTAD IV* (United Nations publication, Sales No. E.77.II.D.1).

[5] Reference may also be made, under this agenda item, to two reports by the Secretary-General of UNCTAD to the Trade and Development Board at its fifteenth session, "Question of the establishment of a comprehensive international trade organization" (TD/B/535) and "The role of UNCTAD in a new United Nations structure for global economic co-operation" (*Official Records of the Trade and Development Board, Fifteenth Session, Annexes*, agenda item 4, document TD/B/573).

[6] In the present report, the term "United Nations" is used to denote the United Nations itself and its programmes falling within the purview of the General Assembly. The term "United Nations system" is used to denote the United Nations as defined above, together with the specialized agencies and – although it is not formally part of the system – GATT.

[7] See *A new United Nations structure for global economic co-operation* (United Nations publication, Sales No. E.75.II.A.7).

[8] See foot-note 5 above.

the Conference, the Secretary-General of UNCTAD has pointed out that the activities classified by the Group of Experts as policy and research serve two different purposes in reality – namely, the provision of policy guidance to governments in respect of their national development efforts, and the establishment of an international economic framework conducive to development.[9] In the first instance, the problems involved call for decisions at the national level: the role of the United Nations is to help governments to reach those decisions, to make available the resources and advice needed for putting those decisions into effect, and to mobilize the support of world opinion for national development efforts. In the latter case, however, the issues involve relations among States, and decisions are taken at the international level, among governments, through a process of consultation and negotiation. They cover all kinds of policies, including those aiming at the control and regulation of private activity, which have a substantial impact on the level, composition and conditions of international flows of trade (in goods and services), technology, payments and financial resources. The role of the United Nations in this respect is to study and analyse the problems involved, to provide specialized institutional machinery to contribute to and facilitate the negotiating process, and to advise governments on their participation in negotiations and on the implementation of the results.

10. This substantive distinction between two broad categories of functions cannot, of course, be applied indiscriminately. There are relationships between the two categories which will call for institutional linkages. It should be noted, in addition, that technical co-operation can be considered as an important supporting element of both categories.

11. Within the existing structure of the United Nations system, most institutions are engaged in both the categories of activities distinguished above. However, it is possible to classify them according to which category accounts for the bulk of their activities. Thus, the bodies principally concerned with international economic relations are UNCTAD, IMF and GATT.[10] Among these, UNCTAD is distinct in that it is a subsidiary organ of the General Assembly, with virtually universal membership, and has a uniquely broad mandate in the field of trade and development. Within the United Nations, it is the specialized forum for deliberation and negotiation in this field. UNCTAD thus has a major contribution to make in resolving international economic issues, including those identified by the General Assembly at its sixth and seventh special sessions.

### B. Strengthening the negotiating function of the United Nations

12. The reform of the world economy in a dynamic context requires a continuous process of study, analysis, deliberation and negotiation in order to formulate general principles to guide policies in the areas of international economic relations mentioned in paragraph 9 above, to establish and supervise international agreements and rules of conduct in these matters, and to solve particular long-term and short-term problems. The results of the negotiations which constitute the final phase of this process may take the form of declaratory resolutions containing general statements of policy, of more specific recommendations calling for action by governments or organizations, or of instruments which are binding upon the governments which ratify them.

13. The United Nations has provided an institutional framework for elaborating new principles and policy approaches in international economic relations. It has been the generator of recent major statements of global economic policy, for example the International Development Strategy for the Second United Nations Development Decade,[11] the Declaration and the Programme of Action on the Establishment of a New Institutional Economic Order,[12] the Charter of Economic Rights and Duties of States[13] and General Assembly resolution 3362 (S-VII) of 16 September 1975 entitled "Development and international economic co-operation". Such policy statements, even if they do not always initially command unanimous support, contribute to a process of evolution in international economic co-operation. The General Assembly, and its subsidiary organ UNCTAD, have played the leading role in this process, and the interaction between the Assembly and UNCTAD has been a key element in it.

14. There will continue to be a need for the generation of new ideas to meet the requirements of a changing world economy and for the elaboration of specific measures designed to give effect to the broad principles and policy approaches adopted by governments. The function of the United Nations, and – within it – of UNCTAD, as a source of new thinking on international economic issues therefore remains an essential one and should be enhanced.

15. While governments have been ready to use the United Nations for the purpose of generating ideas and declarations, they have been less willing to use it as a mechanism for negotiations aimed at translating such ideas and declarations into specific agreements which they agree to implement. The United Nations does have a number of achievements to its credit in negotiating specific commitments by Governments, principally worked out under the auspices of UNCTAD – namely, the generalized system of preferences, the aid targets, a number of commodity agreements, and the Convention on the Transit Trade of Land-locked Countries[14] and the Convention on a Code of

[9] See *New directions... (op. cit.)*, paras. 194-198. See also para. 193 for certain other comments on the recommendations of the Group of Experts.

[10] See foot-note 6 above.

[11] General Assembly resolution 2626 (XXV) of 24 October 1970.

[12] General Assembly resolution 3201 (S-VI) and 3202 (S-VI) of 1 May 1974.

[13] General Assembly resolution 3281 (XXIX) of 12 December 1974.

[14] United Nations, *Treaty Series*, vol. 597, p. 42.

Conduct for Liner Conferences.[15] More recently, the General Assembly, in its resolution 3362 (S-VII), has identified some more issues for negotiation.

16. The strengthening of the negotiating capability of the United Nations would require a willingness on the part of governments to make full use of representative multilateral forums as places in which they will transact serious business. The conduct of economic negotiations outside a universal framework, whatever its merits in terms of negotiating effectiveness, cannot but result in the exclusion of many States from the formulation of policies and decisions which affect their own economic and social welfare. What is needed is a firm commitment by all States to bring international economic negotiations into a relationship with the universal framework which only the United Nations can provide, and, at the same time, to endow the United Nations with machinery to encourage and facilitate such negotiations. In the present political setting, this would seem to be a priority need to be met in the restructuring exercise and, in particular, in the strengthening of UNCTAD as the negotiating instrument of the General Assembly.

### C. Recognition of the interdependence of issues

17. In the past, international deliberations and negotiations on issues in the fields of trade, payments and development finance have, by and large, taken place in separate forums. Such a compartmentalization of issues has made it very difficult to obtain an over-all view of the development problem which, by its very nature, calls for a whole series of mutually supporting measures in these three interrelated fields. As a result, undue emphasis has often been placed upon the containment of imports and of development expenditure as a means of bringing about a balance in the external payments of developing countries.

18. The question of the interdependence of issues and policy actions began to receive widespread attention following the suspension of dollar convertibility into gold in August 1971. Thus, the third session of the Conference was the occasion for an intensive discussion of this matter. In its resolution 84 (III) on the international monetary situation, the Conference, after taking note of "the interdependence between problems of trade, development finance and the international monetary system", urged that "problems in the monetary, trade and finance spheres should be resolved in a co-ordinated manner, taking into account their interdependence, with the full participation of developed and developing countries" and requested the Secretary-General of UNCTAD "to consult the Managing Director of the International Monetary Fund and the Director-General of GATT and to report to the Trade and Development Board at its twelfth session, with a view to enabling the Board to consider the ways in which this co-ordination can be effected".

19. In retrospect, the attempts made to co-ordinate negotiations in the fields of trade, money and finance have not been successful (see para. 46 below). Yet recent developments, in particular those related to the recession in the developed market-economy countries, show that the need to proceed with reforms on a broad front and in a co-ordinated manner is more urgent than ever before.

20. In institutional terms, this would require appropriate arrangements within the United Nations, which is the only universal organization with terms of reference broad enough to enable it to review the interrelationships among the issues at the global level, as well as linkages between the United Nations and IMF, the World Bank and GATT, which have more limited areas of responsibility, less representative memberships and different methods of voting or decision-making. Within the United Nations, it is UNCTAD which is competent to act at the interface between the commercial, monetary and financial spheres. In fact, UNCTAD has been able to exert an influence on deliberations and decisions on money and finance in IMF and the World Bank, and on development in GATT. This particular function of UNCTAD should be clearly recognized and strengthened (see also paras. 22-23 and 45-49 below).

### D. Recognition of the role of UNCTAD

21. The foregoing analysis has brought out the important functions performed by UNCTAD in the field of international economic relations. Thus, it would be reasonable to regard UNCTAD as a major element of a restructured United Nations, and to expect it to undertake a major share of the responsibility for elaborating and implementing fundamental reforms of the world economy.

22. UNCTAD is already the specialized organ of the General Assembly responsible for deliberation, negotiation and review in the field of trade and development. In addition to exercising its own specific responsibilities with respect to trade in goods and services, financing related to trade, transfer of technology and restrictive business practices, UNCTAD should be given a clear mandate to review the interrelationships of international economic issues and of negotiations thereon, and to make recommendations with respect to questions being dealt with by other organizations active in this field. These latter responsibilities need to be clearly recognized by the international community if UNCTAD is to carry them out effectively.

23. Such a recognition would make it possible for UNCTAD to complement the responsibility of the Economic and Social Council under the Charter for over-all co-ordination in support of the General Assembly, a responsibility which extends over all categories of economic and social activities undertaken within the United Nations, and over the work of the United Nations system as a whole. Indeed, UNCTAD can assist the Council in exercising this responsibility by providing a co-ordinated view of problems, policies and negotiations in the field of international economic relations. Similarly, UNCTAD and its secretariat

[15] For the text of the Code of Conduct, see *United Nations Conference of Plenipotentiaries on a Code of Conduct for Liner Conferences*, vol. II, *Final Act (including the Convention and resolutions) and tonnage requirements* (United Nations publication, Sales No. E.75.II.D.12) part one, annex I. The Code of Conduct is in the process of coming into force.

should assist in the servicing of the General Assembly when matters within the competence of UNCTAD are being dealt with. The role of UNCTAD should also be reflected in the representation of the United Nations Secretariat at meetings of other bodies dealing with international economic issues.

## CHAPTER II

## *Measures to strengthen UNCTAD and improve its effectiveness*

24. Recognition by member States of the role of UNCTAD, as outlined above, should entail a readiness on their part to endow UNCTAD with the resources and institutional mechanisms required for the efficient performance of that role. Moreover, certain deficiencies that it has demonstrated in its past performance ought to be remedied. Most of these deficiencies are political, in that they arise from the use (or lack of it) made of UNCTAD by its member States (for example, their reluctance to bring serious negotiating issues into UNCTAD in the first place; their readiness to pursue the same objectives in different forums; and the lack of high-level participation in UNCTAD activities when this could make the difference between the success and failure of negotiations). Other weaknesses are inherent in the institution itself, for example, the administrative and budgetary constraints to which it is subject, the compartmentalized structure of its intergovernmental bodies and secretariat units, and the lack of clarity in the demarcation of its competence in certain areas.

25. With these considerations in mind, the Conference may wish to consider ways and means of strengthening UNCTAD and enhancing its capacity to undertake the tasks which may be expected to devolve upon it in the years ahead.

### A. Reforming the intergovernmental machinery of UNCTAD

26. In the following paragraphs, the attention of governments is drawn to certain aspects of the present organizational structure which seems to require examination with a view to improvement and reform. Certain options for reform are put forward for consideration by the Conference, but they are not meant to be exhaustive.

#### 1. *Participation in the Conference and the Board*

27. There would seem to be a need to increase the frequency of direct participation by Ministers and other high-level policy-makers in the work of UNCTAD. This would have a significant influence on the impact and effectiveness of UNCTAD decisions. At the moment, the quadrennial Conference sessions are the only occasions for such high-level participation.

28. One way of achieving more frequent ministerial participation in UNCTAD would be to hold sessions of the Conference itself more frequently, possibly with a simplified structure and agenda. Alternatively the Board could hold sessions at the ministerial level regularly, perhaps as often as once a year. Ministerial participation could be limited to the latter part of a Board session, the earlier part being devoted to the preparation by senior officials of proposals for consideration by Ministers, and to organizational and administrative matters. The timing of such sessions of the Board would have to be determined with a view to facilitating the attendance of Ministers.[16]

29. A related question is that of the size of the Board. On the recommendation of the Conference at its third session, the membership of the Board was increased from 55 to 68, and the participation in its deliberations of States members of the Conference but not members of the Board was placed on an equal footing with that of members, except with respect to the right to vote.[17] To a large extent, therefore, the Board has the characteristics of a body with an "open-ended" membership; yet the remaining distinction between members and non-members deprives it of the political weight imparted by universality, and could well be removed.

30. The expansion of the membership of the Board to include all States members of UNCTAD[18] would require the amendment by the General Assembly of its resolution 1995 (XIX). Such an expansion might also require the modification of the Board's rules of procedure relating to the quorum and to the majority needed for substantive and procedural decisions.

31. If sessions of the Board with ministerial-level participation of all member States were to become a regular feature of the work of UNCTAD, it might be necessary in future to take a fresh look at the methods of work and purposes of the Conference itself. Since the Conference would no longer be the only organ assembling the entire UNCTAD membership at a high level, consideration could eventually be given to reducing the frequency of its sessions and to convening them to highlight and discuss specific broad issues or groups of issues.

#### 2. *The main committees of the Board*

32. The system of committees of the Board is the principal mechanism in UNCTAD for study, analysis and deliberation with respect to most of the main subject areas within its competence. It is through the work of these committees, and their subsidiary bodies, that issues are brought to the negotiation stage.

33. The four main Committees originally established by the Board at its first session in 1965 (on Commodities,

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[16] This would be a factor in the Board's response to Economic and Social Council decision 65 (ORG-75) concerning the timing of the Board's sessions (see TD/B/L.406).

[17] See *Rules of procedure of the Trade and Development Board* (United Nations publication, Sales No. E.73.II.D.11), rule 76.

[18] This explicit incorporation of all member States would avoid the difficulties inherent in an "open-ended" formula, *inter alia*, with respect to the calculation of a quorum.

Manufactures, Invisibles and Financing related to Trade, and Shipping) have become five with the addition of the Committee on Transfer of Technology in 1974. In addition, the Conference at its second session, in 1968, established the Special Committee on Preferences. A proposal has recently been made by the Group of 77 in the Manila Declaration and Programme of Action for the creation of a sixth main Committee, on economic co-operation among developing countries.[19] In addition, a sessional committee is as a rule established at regular sessions of the Board to deal with trade relations among countries having different economic and social systems, and an intergovernmental group on the problems of the least developed countries has held one session, in 1975, and is to hold another.

34. This system of specialized subsidiary bodies of the Board has performed a valuable function in exploring issues, keeping them under review, building up expertise, and elaborating principles and policy measures. Nevertheless, certain observations may be made concerning the methods of work of these bodies and the structure of the system, with a view to identifying possible improvements therein.

(a) *Increasing flexibility*

35. The methods of work of the Committees are characterized by a certain degree of rigidity, principally owing to the fact that the timing of each regular session and its provisional agenda are normally determined far in advance, at the preceding session of the body concerned. Moreover, the frequency of sessions is fixed; the Committees are normally scheduled to meet twice between sessions of the Conference. Consequently the preparation for a session and the work of the session itself may not always be geared to the real needs existing at the time the session actually takes place.

36. At present, an element of flexibility is imparted by the possibility of holding special sessions of Committees. However, it may be worth considering the possibility of making the regular operation of the committee system more flexible. Thus, while Committees may continue to recommend the date and at least some elements of a provisional agenda for their next sessions, a procedure may usefully be considered whereby a Committee session is convened after informal consultations have established that there is an actual need for it and that adequate documentation will be available. In this way, there would be no fixed frequency of sessions, which could be held more or less frequently than at present.[20] The provisional agenda for each session would be drawn up by the Secretary-General of UNCTAD after such consultations had taken place.

37. Such a procedure would facilitate the partial disengagement of the preparation of documentation from the calendar of meetings. Basic research would be undertaken over a longer term, though research documents could still, of course, be brought to the attention of intergovernmental bodies. Documents prepared to meet the specific needs of those bodies should be short and action-oriented, and could therefore be produced at relatively short notice.[21]

38. It is not possible to estimate how these measures of flexibility would affect the total number of UNCTAD meetings and the volume of documents. It would perhaps be prudent, however, to assume that neither variable would decrease significantly.

(b) *Rationalizing the structure*

39. The evolution of the structure of subsidiary bodies of the Board, as described in paragraph 33 above, shows a tendency not only towards growth in the number of units but also towards the superimposition of cross-sectoral elements on the original sectoral structure. The present structure, which is mirrored in that of the UNCTAD secretariat, often results in issues being somewhat tenuously defined so as to fit into existing organizational compartments, and in overlapping and diffusion of effort. It has not facilitated the treatment of such issues as the activities and practices of transnational corporations, trade in processed commodities, a comprehensive strategy for trade in industrial goods (including the question of industrial co-operation), and specific measures to promote and support economic co-operation among developing countries.

40. This situation demonstrates the need to strengthen central co-ordination in UNCTAD both at the intergovernmental level, through the Board, and within the secretariat. However, there is a limit to the extent to which such co-ordination can be effective at either level in the context of an institutional structure which does not facilitate it. There is therefore a case for examining the structure itself.

41. In this connexion, consideration may be given to measures designed to reduce the compartmentalization of the structure by redefining and consolidating the areas of competence of the Committees. A partial measure of consolidation would be to institute procedures for joint action by Committees on subjects of mutual interest, supported by *ad hoc* secretariat task forces drawn from the divisions concerned. The danger in such a course of action is that it would increase the complexity of the structure by adding new hybrid cells to the organism. A definitive measure would be to merge existing intergovernmental bodies. The risk here is that mergers would eventually result in the creation of specialized sub-units, thus leaving the total number of units unchanged but accentuating the hierarchical nature of the machinery. However, if it were understood that a consolidated committee need not deal with all the subjects within its terms of reference at each session, that it could hold sessions devoted to the special-

[19] See *Proceedings of the United Nations Conference on Trade and Development, Fourth Session,* vol. I (*op. cit.*), annex V, part two, sect. 9, para. 13.

[20] Such a flexible calendar of meetings would call for innovations in the planning of conference services.

[21] These two categories of documents are, of course, connected. Basic research may be designed to elaborate new principles and policy approaches for subsequent negotiation among governments. However, a document presenting the results of research to an intergovernmental body for negotiation can and should be brief and action-oriented.

ized consideration of one or a few topics, and, consequently, that it would meet more frequently than an existing main Committee, the advantages of such mergers might well outweigh the risks.

42. Any measures of consolidation should, of course, be based on agreed substantive criteria and should be very thoroughly worked out so as to ensure that the mandate embodied in the terms of reference and resolutions of the existing Committees is not impaired.

43. A thorough examination of the Committee structure would also permit necessary adjustments to be made in the terms of reference of Committees to take account of the evolution of the activities of UNCTAD since the Committees were set up.[22]

44. Finally, consideration should be given to the substructure of standing subsidiary bodies of committees. There are at present five such bodies: the Working Group on Rules of Origin (of the Special Committee on Preferences); the Working Group on International Shipping Legislation (of the Committee on Shipping); and three subsidiaries of the Committee on Commodities: the Committee on Tungsten (with its own subsidiary Working Group), the Permanent Sub-Committee on Commodities and the Permanent Group on Synthetics and Substitutes.[23] The functions of these bodies should be examined with a view to judging whether they could not be performed equally well by the parent Committee, by a sessional committee thereof, or by an *ad hoc* body. It may be noted in this connexion that the Permanent Sub-Committee on Commodities has held only one session (June 1966, resumed in May 1967).

### 3. *A new cross-sectoral body to review the interdependence of issues*

45. Separate from questions relating to the improvement of the existing committee structure is the question whether there is a need for a new over-all cross-sectoral subsidiary body of the Board which would deal with the interrelationship between the different areas of international economic relations and thus enhance the capacity of UNCTAD to carry out its reviews and recommendatory functions in this respect (see paras. 17-20 above).

46. The question of interdependence of issues in the fields of trade, payments and finance has, in fact, been considered regularly by the Trade and Development Board since its twelfth session. However, the Board's deliberations have failed on the whole to produce the results envisaged by the Conference at its third session. This appears to have been due partly to the lack of technical preparation at the intergovernmental level, and partly to the problems involved in convening a special session of the Board when an issue required urgent attention by governments. As a result, the adjustment process in the world economy was mainly dealt with by specialized ministerial meetings under the aegis of IMF (with respect to international monetary issues and related matters) and OECD (in relation to the interdependence of the economies of its member States).

47. Thus it would appear that, if the question of interdependence is to receive adequate universal attention, it will be necessary to provide the necessary machinery in UNCTAD. One possibility would be to change the Board's rules of procedure so as to permit it to meet at short notice to deal with problems requiring urgent attention.[24] This method, however, would not meet the need for technical preparation at the intergovernmental level. Another method would be to establish a new main committee, meeting say, twice a year or more frequently if the international economic situation so requires, to review cyclical developments in the world economy and adopt the necessary decisions and the recommendations to be transmitted to other organizations. A variant on this would be to establish a permanent working group of the Board consisting of high-level governmental experts. Elements of these different methods could be combined: for example, a session of a new high-level committee might need to be prepared by a group of governmental experts.

48. The committee method is taken up in the proposal submitted by the African States members of the Board for the establishment of a "high-level Standing Committee" of the Board. The draft resolution containing this proposal has been transmitted to the Conference for consideration. It suggests that the Standing Committee should "be entrusted with the study, review and formulation of recommendations concerning issues of particular interest to developing countries in the international trade, development finance and monetary spheres" and recommends that it should "undertake consultations with the parallel bodies in GATT and the International Monetary Fund, with a view to facilitating co-ordination and co-operation with those bodies...".[25]

49. Should the method of establishing a working group be further explored, it could be envisaged as consisting of some 19 to 24 experts, with equitable representation of the various regional groups, and having terms of reference which would enable it: to assess the current world economic situation and evaluate the short-term world

[22] For example, the Committee on Shipping could be specifically enjoined to consider the terms and conditions of international maritime transport services in relation to those of international air and land transport services, thus eliminating the need to set up *ad hoc* bodies to deal with multimodal transport, such as the Intergovernmental Preparatory Group on a Convention on International Multimodal Transport and the Group of Experts on Container Standards for International Multimodal Transport.

[23] In addition, there is the Advisory Committee to the Board and to the Committee on Commodities, the future of which has been under consideration by the Trade and Development Board (see *Official Records of the General Assembly, Thirtieth Session, Supplement No. 15* (A/10015/Rev.1), part three, chap. IX, J and part four, chap. II, I). In this connexion, see also paras. 47-49 below.

[24] The possibility of such a change in the Board's rules is also referred to, in the context of negotiating procedures, in the present report (see para. 58 below).

[25] Draft resolution TD/B/L.360, submitted to the Trade and Development Board at the first part of its fourteenth session (for the text, see *Official Records of the General Assembly, Twenty-ninth Session, Supplement No. 15* (A/9615/Rev.1), annex II).

economic outlook; to assess the adequacy of policies in the interrelated fields of trade, money and finance from the standpoint of the need for orderly expansion of world output and for an uninterrupted development of developing countries; and to make recommendations regarding international measures that may need to be taken in this regard. As in the case of a main Committee, the timing of working group sessions would have to be determined to the extent possible in relation to those of related bodies of IMF, the World Bank and GATT, so that they would be mutually supportive.

### 4. *Strengthening negotiating procedures*

50. As stated above (see para. 12), the results of the process of negotiation on international economic issues may take different forms. The mechanisms needed for negotiations may also vary, according to the type of result envisaged.

51. The negotiating machinery used in UNCTAD at present to produce decisions by its intergovernmental bodies are groups of governmental experts and informal sessional contact groups. The conciliation procedures provided for in General Assembly resolution 1995 (XIX) have never been used.[26]

52. Expert groups have proved increasingly useful as a means of advancing intergovernmental understanding and agreement on the substantive aspects of particular issues.[27] Contact groups have become the normal medium for elaborating texts expressing, or seeking to express, agreement among governments on the outcome of their deliberations in an intergovernmental body. While contact groups are often set into operation too late in a session to allow sufficient time for the process of consultation and negotiation to operate, and while they sometimes attain an unwieldy size, they have proved to be a valuable innovation which should be built upon and improved. The combination of these techniques has enabled the intergovernmental bodies of UNCTAD to adopt a series of resolutions and other decisions elaborating new principles and specific policy measures, making recommendations for action in other organizations and ensuring the continuing work of the UNCTAD machinery itself. In most cases, these resolutions and decisions have been adopted without a vote.

53. In addition, *ad hoc* negotiating conferences have been held under the auspices of UNCTAD, though outside the framework of its permanent machinery, to elaborate and adopt draft multilateral treaties, which are thereafter open for signature, ratification or accession by States. Subject to existing procedures, the Secretary-General of UNCTAD has the authority to convene such conferences on commodities on behalf of the Secretary-General of the United Nations. Other conferences are convened under specific decisions of the General Assembly upon a recommendation of the Conference or the Board.[28]

54. If there is a lacuna in the range of negotiating procedures available to UNCTAD, it is perhaps with respect to the negotiation of specific recommendations addressed to governments, individually or collectively, which, while not legally binding, call upon those governments to which they are addressed to undertake a unilateral voluntary commitment to do their best to take the action envisaged. Such recommendations are usually addressed to governments of developed market-economy countries and/or to those of socialist countries of Eastern Europe. Clearly the effectiveness of this type of decision depends, in the first place, on how specifically it is formulated; a strong text would define the action to be taken in concrete terms, determine a time by or during which action was to be taken, provide for review of implementation, and exclude qualifications such as "as far as possible" or "as appropriate". In the second place, its effectiveness depends on the extent to which it is accepted by the governments to which it is addressed.

55. Machinery to negotiate such decisions must be able to provide the continuity which is often needed to maintain the momentum of a negotiating process aimed at producing effective results. At present, a contact group can only be brought into being during a session of an intergovernmental body. It might be possible to institute a procedure whereby a contact group could be given a mandate to work between sessions of an intergovernmental body; a similar technique has been used in other United Nations bodies. However, a more far-reaching innovation would be to create a negotiating mechanism which is less dependent on the calendar of meetings of the permanent intergovernmental bodies.

56. Such a mechanism could make use of intergovernmental negotiating groups. Its principal characteristics would be as follows:

(*a*) A negotiating group would be established by an intergovernmental body when that body agreed that a particular issue was ready for negotiation; that body would also lay down well-defined terms of reference for the negotiating group and would determine a reasonable period within which the group should complete its work and report back. Thus, none of these questions would be discussed by the negotiating group itself. However, the group would have discretion in arranging its schedule of meetings so as to allow adequate time for reflexion and consultation in capitals and within regional groups.

(*b*) A negotiating group would seek to achieve a genuine consensus on the issues referred to it. In any event, no vote would be taken in a negotiating group. The report of a group to its parent body would contain the text of any

[26] The main intention of these procedures was not so much to encourage negotiations as to delay, and perhaps avoid, voting on "proposals of a specific nature for action substantially affecting the economic or financial interests of particular countries..."

[27] Recent examples of such groups are the *Ad Hoc* Group of Governmental Experts on the Debt Problems of Developing Countries, the Intergovernmental Group of Experts on a Code of Conduct on Transfer of Technology, the Group of Governmental Experts on the Role of the Patent System in the Transfer of Technology, and the *Ad Hoc* Group of Experts on Restrictive Business Practices.

[28] For example, the United Nations Conference of Plenipotentiaries on a Code of Conduct for Liner Conferences.

proposal on which agreement had been reached. If there was no agreed text, any alternative texts before the group would be contained in its report.

(*c*) In the case of agreement in a negotiating group, the parent body could endorse or reject the agreement reached. In the case of lack of agreement in a group, the parent body could either adopt one alternative proposal (presumably by vote), or give the group a fresh mandate to continue negotiations – possibly with additional or new guidelines – or terminate the group.

57. The determination of the size of a negotiating group might pose some problems. While it would not be necessary to impose a standard upper limit on the size of all such groups, there would seem to be an advantage in keeping their size within a reasonable limit, so as to encourage a fruitful negotiating atmosphere. At the same time, all governments with a direct interest in an issue would wish to be involved in negotiations thereon. The answer would seem to lie in assuring, through intra-group consultations, that States which were not members of a negotiating group were in constant contact with their spokesmen in it, and perhaps also in providing for different spokesmen according to the specific topics discussed.

58. A specific question which would have to be considered in the UNCTAD context is, which intergovernmental body or bodies should establish negotiating groups, and to what body the groups should report. One possibility would be for the groups to be established by, and report to, the relevant main Committee or the Board. The disadvantage of this procedure is that the initiation and supervision of negotiations within the areas of competence of the main Committees would either have to await their regular sessions or necessitate a proliferation of resumed or special sessions. It would be preferable, therefore, to envisage that the management of the system of negotiating groups should be the task of the Board, which would start negotiations either on its own initiative or in response to the recommendations of a main Committee. The procedures of the Board would have to be amended to enable it to hold very brief sessions, say of up to three days, at very short notice, in order to establish negotiating groups and receive their reports.

59. Another possible method would be for a main Committee to meet frequently (say once a month or every two months) in order to advance consideration of an issue with a view to providing a basis for decisions by the Conference or by the Board at its ministerial session. This method of work might have a bearing on the size of the main Committees, in so far as the membership might have to be restricted in order to ensure the effectiveness of the deliberative and negotiating process.

### 5. *Procedures for consultation*

60. Many aspects of the foregoing suggestions – for example, the management of a flexible calendar of meetings, the operation of the negotiating group system, and the preparation of ministerial sessions of the Board – would require active and regular informal consultations between governments and the UNCTAD secretariat. Consideration would have to be given to the form which such consultations would take. One possibility would be to build upon the consultations held occasionally by the Secretary-General of UNCTAD with the regional group co-ordinators (for example, before sessions of the Board), at which the co-ordinators are accompanied by some delegations from their groups. The consultations could be held more regularly and frequently (say monthly) and would deal with substantive questions as well as organizational ones. Alternatively, the Board at each annual regular session could designate a consultative group, under the chairmanship of the Secretary-General of UNCTAD, which would serve until the following regular session.

## B. Resource levels, management and planning

61. In considering measures to strengthen UNCTAD, the question of the resources that it requires to carry out its tasks inevitably arises. This question needs to be examined from three angles: the level of resources available to UNCTAD; the flexibility with which these resources can be managed; and the time horizon within which the work of UNCTAD can meaningfully be planned. In this connexion, the specific questions of the resources needed for substantive support to technical co-operation and for information activities should be borne in mind. These aspects of the resource problem are discussed further below in the context of the existing status of UNCTAD as a subsidiary organ of the General Assembly. While the transformation of UNCTAD into a specialized agency is an institutional measure which might provide it with more administrative and budgetary flexibility, there would seem to be advantage for UNCTAD at present to retain its relationship with its parent body, while obtaining from it more autonomy and flexibility.

### 1. *The level of UNCTAD resources*

62. During the period 1971-1976, the resources of UNCTAD[29] rose in real terms at an average annual rate of less than 2 per cent. This increase did not differ significantly from that of the total regular budget of the United Nations devoted to economic, social and humanitarian activities. However, it fell short of the additional requirements resulting from the developments in the world economy during this period.

63. The first half of the 1970s witnessed the monetary crisis in 1971, the continuation of monetary disorder throughout the period, the acceleration of inflation in the developed market-economy countries, the steep increase in the price of oil and the deep recession in the OECD countries in 1974 and 1975. The international community responded to these developments in a number of forums, including UNCTAD, and in particular the General Assembly at its sixth and seventh special sessions. The response was

[29] Expenditure financed by the regular budget, excluding the 1972 and 1976 Conferences, and the share of UNCTAD in the regular budget of the International Trade Centre UNCTAD/GATT.

such as to bring about a substantial expansion of the activities of UNCTAD itself (see also para. 66 below) as well as a significant increase in the workload arising from the need for UNCTAD to participate in the growing number of meetings taking place in other forums dealing with international economic issues. The presence and participation of UNCTAD, for example, in the IMF Committee of Twenty[30] and in the IMF Interim Committee, in the Development Committee,[31] in the multilateral trade negotiations and, more recently, in the Paris Conference on International Economic Co-operation, bring out the active role it has had to assume in the intensive intergovernmental consultations and negotiations resulting from world economic developments.

64. Thus, UNCTAD has been operating under great stress in recent years. It has become increasingly clear that there is a need to reassess the level of resources required by UNCTAD to carry out its tasks efficiently. Such a reassessment should take into account the fact that the restructuring of international economic relations will require a considerable amount of research, deliberation and negotiation, that UNCTAD is the United Nations body specializing in the issues involved, and that activities related to consultations and negotiations on economic issues among States account for a relatively small part of the regular budget of the United Nations.

65. The case for an increase in the level of resources can be stated in more specific terms. First, additional resources would be required to support and conduct negotiations designed to translate into concrete agreements or arrangements the progress already achieved in some vital areas such as primary commodities, financing (including the debt problem) and the transfer of technology. Secondly, the need to proceed on a much larger scale with research and other activities on issues so far insufficiently explored or analysed has become particularly apparent in the follow-up of the decisions taken at the sixth and seventh special sessions of the General Assembly. The resources at hand can hardly do justice to the importance attached to such problem areas as the elaboration of a comprehensive strategy to expand and diversify the export trade of developing countries in manufactures, and the deepening of the concept of collective self-reliance and related measures to strengthen economic co-operation among developing countries. Thirdly, since the trend towards an intensification of multilateral diplomacy in the economic sphere is likely to continue in the years to come, UNCTAD must be given the necessary resources to discharge effectively its responsibilities at the global level for problems and policies related to the interdependence of international economic issues. Fourthly, as shown below, there is also a need for UNCTAD to increase its activities in technical co-operation and public information, two areas which have been neglected to some extent during the recent years of strained resources.

66. The volume of operational activities for which UNCTAD is responsible has expanded relatively fast since UNCTAD became an executing agency of UNDP in 1969. However, the potential for such activities has by no means been fully exploited, as is shown by the increasing demands of developing countries for technical co-operation in areas falling within the competence of UNCTAD and also by the concern of UNDP itself to see its programmes more closely related to the implementation of agreed international development policies. Much more could be done at the interregional, regional and subregional levels, for example, to assist developing countries in connexion with negotiations with developed countries and in promoting economic co-operation among themselves. There is also considerable scope for increased activities at the country level to assist developing countries in such areas as trade, transfer of technology, insurance and shipping and ports.

67. A relatively small but nevertheless important element of UNCTAD activities is its information programme. The resources available to this programme should be commensurate with the growth and diversification of UNCTAD activities and the increase in public interest in the development issue. Furthermore, while maintaining its close co-operation with the United Nations Office of Public Information, including the Centre for Economic and Social Information, the UNCTAD Information Unit should have its own operational budget as do other units of UNCTAD.

### 2. *The need for flexibility in resource management*

68. Apart from the financial problem, the need to dispose of greater autonomy in budgetary, financial and administrative matters, in order to enable UNCTAD to manage its resources in a more flexible manner, deserves to be examined on its own merits. The need for flexibility has been brought out by the experience gained during the past two years. Thus, the elaboration of an integrated programme for commodities would not have been feasible within a reasonable period of time without recourse to extra-budgetary resources, for example, to finance work on the size and location of stocks. However, *ad hoc* reliance on extra-budgetary sources for important work is not consistent with rational programming. Moreover, it has become evident that the grading pattern of UNCTAD staff, which cannot be easily changed under the existing United Nations procedures, does not reflect the new work requirements and responsibilities of UNCTAD.

69. The question of the delegation of authority on these matters to executive heads of the major component units of the United Nations is not new and has been raised on several occasions. The last instance when the General Assembly took up this issue was in 1974, in connexion with UNIDO. It appeared then that short of a radical change in the status of UNIDO, i.e. its conversion into a specialized agency, no satisfactory solution could be found. In essence, as argued by the Secretary-General of the United

[30] *Ad Hoc* Committee of the Board of Governors of the International Monetary Fund on Reform of the International Monetary System and Related Issues, replaced in October 1974 by the Interim Committee of the Board of Governors on the International Monetary System.

[31] Joint World Bank/IMF Ministerial Committee on the Transfer of Real Resources to Developing Countries.

Nations,[32] the central issue is that, under the Charter of the United Nations and the Financial and Staff Regulations approved by the General Assembly, it is the Secretary-General of the United Nations who is responsible and accountable for all aspects of the work of the Organization, including its financial and personnel management.

70. However, it is a point for consideration whether the reconciliation of these central responsibilities with the flexibility required by the organizational units to manage their own resources should not be re-examined altogether in the new context offered by the restructuring of the economic and social sectors of the United Nations. Such a re-examination should in particular seek to make the existing rules and regulations better adapted to the different conditions under which the organizational units operate.

### 3. *Medium-term planning*

71. Linked to the above questions is the time horizon within which the work of UNCTAD and required resources can meaningfully be planned. The adoption of a two-year programme budget and, in particular, a four-year medium-term plan as a uniform pattern for all organizational units of the United Nations, irrespective of the nature of their work and of their modes of operation, has raised a number of difficulties for UNCTAD. In essence, a large part of the work of UNCTAD is determined by the continuous process of deliberation and negotiation taking place in its permanent machinery and, consequently, cannot be planned in detail beyond the inter-sessional periods of the Board and main Committees. Under these conditions, the cost of preparing five years in advance a medium-term plan – which necessarily includes a session of the Conference – far outweighs the benefit which can be derived from this kind of exercise. Here again, the distinction between two broad categories of United Nations activities is relevant. Thus, while most activities undertaken mainly to assist the governments of member States in their national development efforts may be meaningfully planned in considerable detail, any medium-term plan for activities related to international economic issues calling for negotiations among States should be limited to a statement on the major directions of work envisaged for the period ahead.

## CHAPTER III

## *Longer-term issues*

72. The preceding chapters of this report have discussed the role of UNCTAD and measures to strengthen its effectiveness within the existing institutional framework of the United Nations system. It is important, however, to consider measures of institutional reform to be undertaken at present in relation to longer term objectives and issues. In particular, such measures should not be inconsistent with the objective of establishing a comprehensive trade and development organization.[33] The establishment of such an organization, if and when governments are ready for it, is in turn related to substantive issues regarding the restructuring of international economic relations.

73. UNCTAD is actively involved in the elaboration of new rules and mechanisms for international trade in goods and services, transfer of technology, financial transfers and the international monetary system. These new rules and mechanisms are intended to bring about a restructuring of international economic relations and thus to contribute to the establishment of a new international economic order. Indeed, these activities of UNCTAD respond to the principles and objectives embodied in the decisions of the sixth and seventh special sessions of the General Assembly. Several aspects of the restructuring of the international economic framework will be considered by the Conference at its fourth session.

74. Thus, in the monetary field, the attention of the Conference is drawn to the need for a reform of the monetary system administered by IMF. Issues raised in this respect include the establishment of a mechanism designed to offset the asymmetries between developed and developing countries in the balance-of-payments adjustment process and to protect the latter from economic maladjustments in the former, and international control of international reserve creation so as to ensure that aggregate reserve creation is consonant with needs and distributed according to internationally agreed criteria. The Conference may also consider the ways in which the monetary and payments relations of developing countries with socialist countries of Eastern Europe may be expanded and improved.[34]

75. In the area of trade, the adoption of the integrated programme for commodities would lead to the establishment of new rules and mechanisms in international trade in primary commodities. The Conference is also expected to decide on the nature of a code of conduct for the transfer of technology and to give directions for further work in the area of restrictive business practices. Moreover, the policy papers before the Conference contain suggestions regarding a comprehensive approach for expanding the trade of developing countries in manufactures; trade and economic co-operation between socialist countries of Eastern Europe and developing countries and means to facilitate economic co-operation among developing countries. Furthermore, the Conference will have in mind the need to ensure consistency in the evolution of monetary and trade policies.

76. The existing economic order, changes to which are thus being sought, is commonly defined by reference to the monetary and trading system centred on IMF and GATT, since the bulk of world trade and payments takes place

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[32] See the report of the Secretary-General of the United Nations on the "Question of the separate preparation and submission of the programme and budget of the United Nations Industrial Development Organization and of administrative autonomy for the United Nations Industrial Development Organization" (A/C.5/1616 and Corr.1).

[33] See TD/B/535.

[34] See, in this connexion, document TD/189 above.

within that system. In fact, the IMF/GATT system was drawn up essentially by and for the developed market-economy countries and did not, therefore, meet the particular requirements of two other groups of countries, namely, the socialist countries of Eastern Europe and the developing countries. Although a number of the former participate in GATT, they rely on their own system for regulating their mutual economic relations, centred on CMEA.[35] The developing countries, however, have no economic system of their own; for historical and other reasons, most of them are members of IMF and GATT.

77. The Articles of Agreement of IMF and the regulation of the use of tariffs and related commercial policy instruments under the General Agreements on Tariffs and Trade were intended to provide a contractual framework to facilitate the attainment of the two interrelated objectives of currency convertibility and trade liberalization. This framework was based on the principles of non-discrimination, reciprocity and mutual advantage, and was predicated on the assumption that economic activity, including trade, would be carried out mainly by private enterprise, in competitive conditions, and that governments would intervene selectively in such activity essentially by means of tariffs, which were to be reduced over a period of time. No provisions were made for the control and regulation of restrictive practices by private enterprise.

78. The framework was complemented by activities carried out by the Organisation for European Economic Co-operation, the members of which were developed market-economy countries, and its successor body, OECD. One important function of OECD is to serve as a centre for the co-ordination of the economic, financial and monetary policies of its member States, with a view to maintaining virtually full employment in the OECD area and a state of reasonable equilibrium in the balance of payments of members.

79. The economic relations among the socialist countries of Eastern Europe have been developed in accordance with their systems of State planning. Their relations are now conducted on the basis of the principles formulated in the Comprehensive Programme for the Further Extension and Improvement of Co-operation and the Development of Socialist Economic Integration adopted in 1971 by the member countries of CMEA.[36] These countries aim at integrating their economies and at increasing the capacity and stability of their trading area, through more effective co-ordination of their plans, enhancing the role of long-term trade agreements, through growing specialization and co-operation in production and through a more pronounced division of tasks between member countries which are increasingly to pool their efforts in establishing joint projects. In particular, they aim at gradually reducing discrepancies in levels of economic development among the CMEA countries, and foresee to that end specific supporting and assisting measures in favour of the industrially less developed members based on bilateral or multilateral agreements. Payments as well as other financial transactions between CMEA member countries are carried out in transferable roubles on the basis of arrangements within the International Bank for Economic Co-operation and the International Investment Bank.

80. In the course of the last two decades, the socialist countries of Eastern Europe have expanded their trade and other economic exchanges with other countries at a relatively fast pace. A large part of trade and payments agreements with countries not members of CMEA is governed by bilateral agreements, outside the framework of the GATT and IMF rules.

81. The developing countries maintain trade and other economic relations among themselves and with the socialist countries of Eastern Europe, but the developed market-economy countries account for about three-quarters of their export earnings. Moreover, a large part of the trade of developing countries is controlled directly or indirectly by transnational corporations, which are also their main source of technology. The dependence of developing countries on the OECD countries and their enterprises reflects not only the past history of colonialism but also the fact that the free play of market forces tends to perpetuate the weak and peripheral position of developing countries in world production and trade.

82. The particular needs of the developing countries have not been entirely ignored. Thus, in practice, IMF has allowed most developing countries to maintain foreign exchange restrictions, thereby postponing indefinitely their observance of the principle of currency convertibility. GATT, for its part, allows developing countries to use trade measures to protect their infant industries, to curb imports more freely by reference to their development needs, and to use export subsidies in areas where similar action by developed countries is restricted. Moreover, GATT has granted the waiver required for the application of the generalized system of preferences and for the limited preferential arrangements concluded by some developing countries.[37] However, the value of these deviations from the rules must be assessed in conjunction with the inadequate response by IMF to the particular adjustment problems encountered by developing countries, especially in times of recession and inflation in the OECD countries; the frequent lack of observance by developed market-economy countries of their own trade rules in the case of imports from developing countires; and the large share of world trade accounted for by preferential arrangements among developed market-economy countries.

83. There is thus a need for a new set of rules and mechanisms governing economic relations between developing countries and developed market-economy coun-

[35] A few developing countries participate in the CMEA system.

[36] 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).

[37] Protocol Relating to Trade Negotiations among Developing Countries, adopted on 8 December 1971 (GATT, *Basic Instruments and Selected Documents, Eighteenth Supplement* (Sales No. GATT/1972-1), p. 11).

tries.[38] Equally important, as stated above, is the need for a thorough examination of the possible ways and means of establishing a system of economic co-operation among developing countries with the dual objective of taking full advantage of the opportunities for greater trade and other economic exchanges among themselves and of increasing their bargaining power vis-à-vis the rest of the world. Attention should also be given to the strengthening of various forms of trade and economic co-operation between developing countries and the socialist countries of Eastern Europe and to the normalization of trade between the latter countries and the developed market-economy countries.

84. There is, however, also a case for reviewing the IMF/GATT "rules of the game" as applied to economic relations among the OECD countries. This case rests not only on the weight of these countries in the world economy, which is felt by the other countries at various stages of the business cycle, but also on the fact that the existing system is being increasingly questioned even in the developed market-economy countries themselves. In the first place, the initial assumption of governments would not intervene in economic activity by means of selective measures other than tariffs has become increasingly unrealistic over time. Not only have non-tariff barriers become a more important obstacle to trade than tariffs, but in order to attain particular national economic, social and security objectives, in agriculture as well as in industry, governments often rely on selective policy instruments other than tariffs and non-tariff barriers as commonly defined. Secondly, the post-war rules did not envisage the phenomenal growth in the economic power of transnational corporations, which now control or influence a substantial proportion of world trade and virtually all transfer of technology. The activities of these corporations, to the extent that they involve intra-corporate arrangements – both internally and externally – largely fall outside the framework of national and international regulations. Thirdly, the international monetary system set up by the United Nations Monetary and Financial Conference at Bretton Woods came to an end in 1971, since when there have been a number of *ad hoc* agreements on monetary matters among the economically powerful developed market-economy countries but no universal agreement on a genuine monetary reform. Lastly, the efforts by OECD countries to co-ordinate policies have not succeeded in preventing a major recession and the continuation of price inflation and monetary disorder.

85. Despite the need for change, there is no universal consensus on the character and content of new "rules of the game". The issue of monetary and trade reform is on the agenda of the various international organizations concerned. The relevant activities under way in UNCTAD, to which references has already been made, are expected to be intensified after the Conference. But what is lacking is an over-all approach to the problem. In the trade field, in particular, there is a need to elaborate the kind of rules and mechanisms which would make international trade into an instrument for the harmonized and balanced development of the world economy. This is not an easy task, since it raises such questions as the extent to which market forces should be subject to regulation according to international rules, and the readiness of governments to discuss non-commercial policies affecting trade and technology in international forums.

86. As already noted, the elaboration of new rules and mechanisms for international economic relations would form an important part of the process of establishing a new international economic order. At the same time, it would not be inconsistent with the eventual establishment of a comprehensive international trade and development organization. Such an organization, which would encompass the present functions of UNCTAD and GATT, would deal with all major trade flows and might include distinct compartments for particular flows and for codes of conduct in particular areas (for example, transfer of technology). Moreover, the organization should include, as appropriate, provisions for links between different trading systems as well as machinery designed to deal effectively with the interdependence of international economic issues. Finally, it would be essential for a comprehensive trade and development organization to provide a forum for bilateral and multilateral consultations regarding government policies – both non-commercial and commercial – having an impact on trade and development. The aim of such consultations would be not only to solve particular problems but also to pave the way for increased economic co-operation among governments, based on a consensus to the effect that international economic issues cannot be solved through reliance on market forces alone, but require purposive and concerted governmental intervention by reference to common objectives of world development.

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[38] The elaboration of new rules for commercial relations between developing and developed countries was proposed by Brazil at the seventh special session of the General Assembly (see *Official Records of the General Assembly, Seventh Special Session*, 2327th plenary meeting, para. 16) and in the Trade Negotiations Committee. This approach was taken up in a draft resolution submitted by the Group of 77 to the Second Committee of the General Assembly at its thirtieth session (*ibid., Thirtieth Session, Annexes*, agenda item 123, document A/10344/Add.1, para. 16).

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