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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. E.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;

Fourth session: *Proceedings of the United Nations Conference on Trade and Development, Fourth Session*, vol. I, *Report and Annexes* (United Nations publication, Sales No. E.76.II.D.10), pp. 6-46.

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CONTENTS

ABBREVIATIONS

ACM	Arab Common Market
ACP	African, Caribbean and Pacific countries signatories to the Lomé Convention
ACU	Asian Clearing Union
ADC	Andean Development Corporation
AfDB	African Development Bank
ALIDE	Latin American Association of Development Financing Institutions
AMU	Asian monetary unit
AsDB	Asian Development Bank
ASEAN	Association of South-East Asian Nations
CACM	Central American Common Market
CARICOM	Caribbean Community
CARIFTA	Caribbean Free Trade Association
CCAO	West African Clearing House
CCCN	Customs Co-operation Council Nomenclature
CEAO	West African Economic Community
CEPGL	Economic Community of the Great Lakes Countries
c.i.f.	cost, insurance, freight
CMEA	Council for Mutual Economic Assistance
DAC	Development Assistance Committee (of OECD)
dwt	deadweight tons
ECA	Economic Commission for Africa
ECCA	East Caribbean Currency Authority
ECCM	East Caribbean Common Market
ECE	Economic Commission for Europe
ECLA	Economic Commission for Latin America
ECOWAS	Economic Community of West African States
ECSC	European Coal and Steel Community
ECWA	Economic Commission for Western Asia
EDF	European Development Fund
EEC	European Economic Community
EFTA	European Free Trade Association
EIB	European Investment Bank
ESAPTA	East and Southern African Preferential Trade Area
ESCAP	Economic and Social Commission for Asia and the Pacific
EUA	European unit of account
FAO	Food and Agriculture Organization of the United Nations
f.i.o.	free in and out
f.o.b.	free on board
GATT	General Agreement on Tariffs and Trade
GDP	gross domestic product
GNP	gross national product
grt	gross registered tons
GSP	generalized system of preferences
IBEC	International Bank for Economic Co-operation
IBRD	International Bank for Reconstruction and Development (World Bank)
IDA	International Development Association
IDB	Inter-American Development Bank
IFC	International Finance Corporation
IIB	International Investment Bank
IIEP	International Institute for Educational Planning
ILO	International Labour Office
IMF	International Monetary Fund
ISIC	International Standard Industrial Classification
LAFTA	Latin American Free Trade Association
LNG	liquefied natural gas
LPG	liquefied petroleum gas
MARIUN	Mano River Union
MFN	most favoured nation

OAPEC	Organization of Arab Patroleum Exporting Countries
ODA	official development assistance
OECD	Organisation for Economic Co-operation and Development
OPEC	Organization of Petroleum Exporting Countries
PCCM	Permanent Consultative Committee of the Maghreb Countries
RCD	Regional Co-operation for Development
SDRs	special drawing rights
SELA	Latin American Economic System
SITC	Standard International Trade Classification (revised)
UCAO	unit of account of West Africa
UDEAC	Customs and Economic Union of Central Africa
UNDP	United Nations Development Programme
UNEP	United Nations Environment Programme
UNESCO	United Nations Educational, Scientific and Cultural Organization
UNHCR	Office of the United Nations High Commissioner for Refugees
UNITAR	United Nations Institute for Training and Research
WIPO	World Intellectual Property Organization
UNICEF	United Nations Children's Fund
UNIDO	United Nations Industrial Development Organization
UNTA	United Nations technical assistance
WAUA	West African unit of account
WFP	World Food Programme
WHO	World Health Organization

EXPLANATORY NOTES

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

References to tons are to metric tons, unless otherwise specified.

The term "billion" signifies 1,000 million.

A hyphen between years, e.g. 1975-1978, signifies the full period involved, including the beginning and end years.

An oblique stroke between years, e.g. 1975/76, indicates a financial year or a crop year.

In tables:

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

A dash (—) indicates that the amount is nil or negligible, unless otherwise specified;

A minus sign (–) before a figure indicates a decrease, unless otherwise specified;

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

Figures in parentheses in tables, e.g. (25.0), are estimates, unless otherwise specified;

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

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In foot-notes in the present volume:

The abbreviated title "*Proceedings ...*" refers to *Proceedings of the United Nations Conference on Trade and Development* for the session indicated;

References to "vol. I" are to *Proceedings ... Fifth Session*, vol. I, *Report and annexes* (United Nations publication, Sales No. E.79.II.D.14).

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The classification of countries and territories into developing and developed is intended for statistical convenience and does not necessarily imply any judgement regarding the stage of development of any particular country.

DOCUMENT TD/221

Restructuring the international economic framework

*Report by the Secretary-General of the United Nations Conference on Trade and Development to the fifth session of the Conference**

[*Original: English*]
[*6 April 1979*]

CONTENTS

Introduction

1. The agenda for the fifth session of the United Nations Conference on Trade and Development is wide-ranging.[1] It includes within its compass virtually all the major concerns in the area of international co-operation for development, the major issues of relevance to the North-South dialogue and the essential themes of the New International Economic Order. No single issue dominates the agenda to the exclusion of others. No single issue has been the subject of intensive pre-Conference negotiations, as was the commodity issue prior to the fourth session held at Nairobi. For this reason, the fifth session needs to be seen as affording the international community an opportunity to progress along a broad front, to provide new orientations and directions for the 1980s, and to give credibility and confidence to the very concept of international economic co-operation.

2. The issues incorporated in the agenda for the fifth session of the Conference are relevant to many of the essential concerns of the international community in the current situation. They reflect the major problems at present facing the developing countries in the area of international economic relations. But they also reflect problems that must be of vital concern to the developed countries themselves. The problem of weak and fluctuating terms of trade continues to be one of the predominant concerns of the developing countries in the present context. The question of access to markets for the products of their emergent manufacturing sectors has acquired a new urgency against the background of a trend towards protectionism in the industrialized countries. The severe inadequacy of the prevailing network of financial facilities, and indeed the limitations of the international monetary system as a whole, have been underlined by the vast shifts in the payments positions of developed and developing countries in recent times. The need for much wider economic co-operation among the developing countries themselves has come to be highlighted by the persistence of their dependence on a few metropolitan Powers for trade, technology and finance. All these issues figure prominently on the agenda for the fifth session. Taken together with issues in the fields of technology, of trade between countries with different economic and social systems, of shipping, and with problems affecting specially disadvantaged categories of countries such as the least developed countries, they make up a wide and well-rounded agenda for the fifth session of the Conference.

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* This report was also issued as a brochure (United Nations publication, Sales No. E.79.II.D.12).

[1] See *Proceedings ..., Fifth Session,* vol. I, part three, para. 6.

3. The issues by themselves are not new. Indeed, it is important to recognize the continuity that exists between the fifth session and the fourth session.[2] At Nairobi, the Conference sought to give specific content to some of the themes of the New International Economic Order by launching a serious process of negotiations in a number of areas. The progress achieved and the further actions needed in these very areas must be central to the concerns of the fifth session itself. The session must approach these issues in the light of developments and perceptions that have emerged in the intervening period. The distinguishing feature of the fifth session would be not so much the difference in subject matter but rather the fact that the agenda for the session provides—perhaps for the first time at an international conference—an opportunity for actions on a number of issues which, when taken together, could contribute to bringing about important structural changes in international economic relations and indeed in many aspects of the global economy itself. The theme of structural change pervades the agenda for the Conference. It is reflected in the issues that are crucial to each of the specific items of the agenda. What is more significant, it is itself the subject of a separate agenda item.

4. The theme of structural change is one of the crucial concepts of the New International Economic Order. It signifies the conviction of the developing countries that the development process cannot progress adequately as a mere by-product of growth and prosperity in the developed countries. It also signifies their conviction that the development process requires more than the transfer of resources through aid or development assistance alone; that it requires rather changes in some of the prevailing mechanisms and systems that govern international economic relations. But what is also relevant in terms of the actions called for at the fifth session of the Conference is that the theme of structural change needs to be seen as being of particular significance to the developed countries themselves. The developed countries are becoming increasingly aware that the problems of recession, unemployment, inflation and slow growth which they have faced for some years now are not merely of a cyclical nature and that certain basic changes of a structural character are needed for their solution. There are also the beginnings of a realization in the developed countries—and this is of vital importance to the future of the dialogue between developed and developing countries—that the growth and prosperity of the developing countries can contribute to their own recovery and that actions to accelerate the development process, far from being burdensome to the industrialized countries, could impart strength and vitality to their own economies. The dependence of the developing countries on the developed has for long been emphasized. What has received less attention is the growing dependence of the developed countries on the developing, not only as sources of essential supplies but also as markets for their exports.

5. There are two specific aspects of the theme of structural change to which reference has been made in the agenda item dealing with that subject. One of these concerns the manner in which provision might be made for taking account of the recognized interdependence of issues in the field of money, trade and development in the formulation of policies both national and global. The other relates to the need for further evolution in the rules and principles that have hitherto governed international economic relations. In respect of the former, the Conference can take action relating to the establishment of an appropriate mechanism. In respect of the latter, the Conference could, by its responses and approaches, initiate a longer-term process that might eventually lead to a recasting of these rules and principles so as to make them more relevant to the needs of the time.

6. The fifth session of the Conference convenes against a background of disappointment and impatience regarding the slow tempo of progress in the dialogue on international co-operation for development and the paucity of results attained so far. This was strongly voiced in the Arusha Programme adopted in February 1979 by the Group of 77.[3] The agreement on the fundamental elements of the Common Fund reached virtually on the eve of the Conference will doubtless contribute towards an improvement in the climate of confidence. The negotiation of the Articles of Agreement will be a demanding and complex task. But the agreement on the fundamental elements is a step of great significance, in view of the virtually central role the Common Fund has occupied in the whole debate on international co-operation for development. The agreement on the Common Fund will not, however, suffice by itself to dispel completely the mood of disappointment. It is for the fifth session to achieve this result by virtue of the actions it takes. In the more general sense, there remain essentially two conditions for success—both at Manila and in the period thereafter. The developed countries need to translate their growing awareness of the need for structural change and of the interdependence of issues into positive responses on specific questions. The developing countries in turn need to enhance both their bargaining power and their negotiating capacity so as to make their contribution towards avoiding a recurrence of the delays and frustrations of the past. The satisfaction of these conditions, taken together, will lead not only to the success of the fifth session of the Conference but also to the commencement of a new and positive phase in international economic co-operation.

7. The sections to follow discuss in broad outline the several issues before the Manila Conference. These are elaborated upon in the secretariat documents on the several agenda items. The discussion touches on some of the individual items of the agenda, as well as on the underlying theme of the Conference in the setting of the need for structural change. The fifth session convenes on the threshold of the 1980s. The decisions of the Conference cannot but have a major impact on international economic policy throughout the decade to come. They will inevitably influence the international development strategy for the 1980s. Indeed, the Conference is called upon to address itself specifically to the contribution of UNCTAD to the formulation of the strategy. But the major contribution

[2] See the report by the Secretary-General of UNCTAD entitled *New directions and new stuctures for trade and development* (United Nations publication, Sales No. E.77.II.D.1) for a review of the issues before the Conference at its fourth session.

[3] Arusha Programme for Collective Self-Reliance and Framework for Negotiations, adopted by the Fourth Ministerial Meeting of the Group of 77, held at Arusha, United Republic of Tanzania, from 6 to 16 February 1979. For the text, see vol. I, annex VI.

must come through the actions and decisions of the Conference on the key issues before it.

8. A successful outcome at this session is likely to enhance and extend the negotiating process in a number of areas. It will reinforce the recent trend whereby issues pertaining to relations between developed and developing countries are acquiring an increasingly specific character requiring intensive negotiations. This trend is relevant to the manner in which UNCTAD as an organization must respond to the challenges before it. This issue is also on the agenda for the Conference. Its major aspects are also the subject of comment in the sections to follow.

9. The Conference is devoted primarily to the international aspects of the development process. Its major concern is the creation of an international framework that provides full support for such a process. But it needs to be underlined in this context that successful development requires, in addition, purposeful and effective actions by the developing countries themselves. The need to adapt and reform systems and mechanisms in the international arena is paralleled by a need for reform and adaptation at the national level. A better external environment for development is a necessary, though not sufficient, condition for an adequate tempo of development.

CHAPTER I

Some major issues before the Conference

A. Restructuring commodity markets and trade

10. The restructuring of international trade in commodities was indeed the major issue at the fourth session of the Conference at Nairobi. The main result of that session was the adoption of a comprehensive and far-reaching decision which endorsed the concept of an Integrated Programme for Commodities.[4] The central theme of that Programme was the need to treat the problems of individual commodities within a common framework of principles, modalities and mechanisms and to establish a common institution for the financing, *inter alia*, of stocking operations that would result from commodity agreements to regulate international markets.

11. The Integrated Programme for Commodities is made up of a number of interrelated elements which together shape the basic plan for the restructuring of international trade in commodities. It includes the regulation of commodity markets through the mechanism of the Common Fund and international commodity agreements, as well as compensatory financing for fluctuations in export earnings. But it also embraces those elements of a development character which are aimed at a fundamental restructuring of international trade in commodities, such as the export-oriented processing of commodities and the reorganization of marketing and distribution systems which would need to be developed within a longer-term perspective. In adopting the Integrated Programme, the Nairobi Conference also authorized the launching of international negotiations both on individual commodities and on the Common Fund.

[4] *Conference resolution 93 (IV) of 30 May 1976.*

12. In the period since the Nairobi session, UNCTAD as an organization has been deeply concerned with the negotiating process. It has had a vast number of meetings—both preparatory meetings and negotiating conferences—on individual products and on the Common Fund. In the light of this experience, the tasks facing the fifth session of the Conference fall into two categories. It must take stock of the results achieved so far in the process of negotiations and draw the lessons to be learned from it. But no less important, it must address itself to those aspects of the Integrated Programme which have not received particular attention since the fourth session. The Conference must, in other words, pursue the implementation of the Integrated Programme in all its aspects.

13. The progress made in the realm of negotiations has not been rapid. The initial deadline for the conclusion of the negotiations—the end of 1978—has had to be extended. But more serious has been the slow progress in advancing individual commodity discussions to the stage of fully fledged negotiations and the delays experienced in reaching agreement on the fundamental elements of the Common Fund. The agreement now reached on the basic elements of the Common Fund must naturally weigh heavily in any revised appraisal of the progress achieved since the Nairobi Conference. Yet, the experience gained in the negotiating process and the lessons to be learned are also of relevance to such an appraisal and offer valuable pointers to the future.

14. At the fourth session, and more markedly in the period thereafter, there were indications of a new commitment on the part of the developed countries to the goal of improving and strengthening commodity markets. This found expression in statements by leading spokesmen and in pronouncements following meetings of industrialized countries at the highest levels. Support for the regulation of commodity markets was seen not merely as a desirable response to demands from developing countries but also as an instrument helpful to domestic policy in the industrialized countries. Nevertheless, despite this new and vitally important evolution in policy, there has been a relative failure—or at least a long delay—in translating this new commitment into concrete actions. In the period since the Nairobi Conference, despite several preparatory meetings on as many as 12 commodities included in the Integrated Programme but not covered by international agreements, it has proved possible to bring only one product—rubber—to the stage of a negotiating conference. The traditional features of commodity discussions—the clouding of the main issues by a mass of technical detail, the requests for successive studies, and the avoidance of actual decisions—all these remain aspects of the post-Nairobi discussions. Often, the basic question whether an international agreement was needed at all for a particular product was left open by developed countries as an issue on which light had to be shed. The alternative approach reflecting a firm commitment to the regulation of the market for a particular commodity and also to appropriate measures of a developmental character and to the search for mechanisms to give effect to them was seldom in evidence.

15. There were shortcomings on the side of the developing countries as well. Although these countries have remained for the most part firm supporters of the concept of the regulation of international markets and of the instrument of international commodity agreements to

achieve this end, they have often not given sufficient thought and attention to the possible character and specific features of such agreements. Not seldom there has been an expectation that this work would be done and that concrete proposals would be presented by others—the secretariat of UNCTAD or even the consumer countries. Even more important, the developing countries did not always succeed in evolving and presenting common proposals in the negotiations on individual commodities. Significantly enough, the one commodity in respect of which discussions proceeded most rapidly towards concrete negotiations—rubber—was precisely the one on which the developing country producers succeeded in evolving common positions and in presenting specific proposals, including plans for unilateral action should an agreement not be forthcoming.

16. To a considerable extent, the slow tempo of the negotiating process in respect of individual products has been a reflection of the delay in the establishment of the Common Fund itself. By serving as an institution able to offer finance for intervention in markets in support of prices through international commodity agreements, and by focusing attention on commodity problems more generally, the Fund was seen as playing the role of a catalyst in bringing about such agreements. Its creation was seen to introduce a new element that would help to avoid the largely negative experience of the past in efforts to arrive at commodity agreements. The uncertainty surrounding the establishment of the Fund inevitably had its impact on the search for solutions for individual commodities. It led to uncertainties about the prospects of finance for buffer stocks and hence to ambiguities regarding the respective roles of stocking and other instruments for market regulation in the mix of possible solutions for individual products.

17. There is now—after four rounds of negotiation ranging over the period March 1977 to March 1979—an agreement on the fundamental elements of the Common Fund.[5] This affords a basis for the drafting of Articles of Agreement by an interim committee open to all member States of UNCTAD, and for their adoption by the Negotiating Conference to be reconvened before the end of 1979. The agreement reached on the fundamental elements of the Common Fund envisages the establishment of a new institution which would finance both stocking activities and other measures in the area of commodity policy. In respect of stocks, the Fund would provide finance for up to two thirds of the value of all stocks to be created under international commodity agreements that choose to be associated with it. The residual third would be provided in the form of cash deposits by the parties to each agreement on the principle of joint financing on the part of producers and consumers.

18. The resources provided by the Fund would be loaned to commodity organizations against the collateral of stock warrants and callable capital pledged directly to the Fund by the parties to each commodity agreement. The Fund would in turn raise such resources through borrowings in the private and public capital markets from Governments, regional or international financial institutions and funds. To facilitate such borrowings and to help to meet its other needs—administrative costs, liquidity requirements and so on—the "first window" of the Fund would have a capital of $400 million. The Fund would also have a "second window" for the financing of measures in the commodity field other than stocking. The resources of the second window would be an estimated $350 million. There would be procedures for the pledging of voluntary contributions and for the replenishment of the resources of the second window from time to time. The agreement also incorporates a voting pattern in the Fund different from the pattern prevailing in other international financial institutions.

19. As mentioned before, in terms of the structure envisaged for the Common Fund, two thirds of the total financial requirements for stocks arising out of individual commodity agreements could be provided by the Fund through loans to commodity bodies—the residual one third being provided by the parties to these agreements in the form of cash deposited with the Fund. The UNCTAD secretariat had earlier estimated that the aggregate value of stocks needed for the commodities in the Integrated Programme that were suitable for stocking would amount to a sum of around $6 billion. It was proposed that two thirds of this amount, i.e., $4 billion, be raised by the Common Fund through borrowings and one third, or $2 billion, through direct contributions to the Fund by Governments of member States. The Fund would, in turn, lend these resources to individual commodity bodies. In terms of the structure of the Fund now envisaged, the Fund is expected to be able to raise resources through borrowing to the full extent of its potential commitment to commodity bodies—i.e., eventually $4 billion if the initial estimates prove correct. The remaining part of the cost of stocks—an eventual total of $2 billion in terms of these estimates—will now be provided by cash contributions from the countries parties to commodity agreements as they arise, rather than from members of the Fund itself as originally envisaged.

20. It would be erroneous to compare, as has sometimes been done, the capital structure of the first window of the Fund now contemplated, i.e. $400 million, with the $6 billion estimate of stocking requirements which the Fund was intended to provide. The latter amount represents the estimated total needs of stocking which would, in terms of the structure now envisaged for the Fund, be financed by the cash deposits of international commodity agreements and by the Fund's borrowings. The capital of the Fund will only be utilized to enhance the ability of the Fund to raise, at as low a rate of interest as feasible, the amounts needed for stocking in the market—two thirds of $6 billion if need be—by reinforcing its creditworthiness, as well as to provide the Fund with the finance needed for operational purposes, administrative costs, and liquidity requirements.

21. The decision that the Common Fund would now also finance measures other than stocking is indeed a significant and major development. It adds an entirely new dimension to the concept of the Fund—a dimension that should not only widen its scope as an international institution in the commodity field, but also increase its

[5] See "Report of the United Nations Negotiating Conference on a Common Fund under the Integrated Programme for Commodities on its third session" (Geneva, 12-19 March 1979) (TD/IPC/CF/CONF/19), annex I.

relevance to a large number of countries producing commodities that might not readily benefit from stocking activities. The fact that the second window would, in addition to financing other measures, play a co-ordinating role in respect of the activities of other financing institutions in this area, is itself of the greatest importance. It would vastly enhance the significance of the Fund in the area of commodity policy.

22. The Common Fund should not be viewed in static terms, but rather as a new institution which can be expected to evolve and be adapted to needs in the light of experience. The very establishment of the Fund should represent a major innovation in the institutional field. It would be an international organization with a multi-commodity interest and with financial resources at its command. Implicit in its creation is the endorsement by the international community of the concept of market regulation on a much wider scale than before. It would be an institution whose establishment was pioneered by the developing countries as an important part of their quest for a restructuring of the mechanisms that govern their relations with the developed countries. It would be an institution able to meet a wide range of needs in the commodity area—not only stocking but other measures as well. It would be an institution with a voting pattern quite different from those prevailing in other international financial bodies, and in which the developing countries would have a very substantial voice. Not least, it would be an institution whose resources would be subscribed to in large part by the developing countries themselves. The Common Fund represents, at the same time, a co-operative endeavour on the part of the entire international community. Its very creation as a universal organization is predicated on the premise that its objectives are seen to be in the common interest of all groups of countries. From the outset, the concept of the Fund received support from some developed countries. That it took so long to reach an ultimate consensus on its fundamental elements is perhaps a mark of its innovative character and of the hesitations that inevitably arise whenever basic changes are being pursued. Whilst none can predict with certainty how the Fund will evolve, it certainly has the ingredients that will enable it to prove itself an institution of the utmost importance.

23. With an agreement on the Common Fund, the discussions and negotiations on individual products can enter into a new phase. As mentioned before, the uncertainty in this regard had an inhibiting influence on such discussions and negotiations. The prospect of stock financing from the Common Fund is of relevance to both existing agreements and new agreements. The prospect of finance from the Common Fund could be taken into account in redesigning existing agreements at the time of their renegotiation. New agreements could seriously explore and where appropriate, make provision for stocking as an instrument of market regulation in the light of the availability of finance from the Common Fund. The discussion on individual commodities has recently begun to focus, somewhat more than before, on concrete actions for improving markets. The agreement on the fundamental elements of the Common Fund should give a further impetus to this process. At its fifth session, the Conference could underline the need for fresh approaches in individual commodity discussions within a time-bound programme based on a new and specific commitment to the regulation of commodity markets and to developmental measures through international commodity agreements, and taking into account the prospect of support from the Common Fund. Indeed, thre is now a need for instilling a greater sense of purpose and urgency into the future work on individual commodities and for channelling it towards decisive international action which would be commensurate with the goals and objectives of the Integrated Programme. In pursuing the discussions on individual commodities, attention should be paid to the wider implications for the Integrated Programme as a whole. The basic conflicts in the negotiations on individual commodities may prove easier to resolve if account is taken of the over-all balance in the benefits to be derived from the implementation of the Programme. This would be facilitated by across-the-board commitments to negotiate international arrangements for a wide range of commodities.

24. The basic elements of the Integrated Programme for Commodities are not confined to price stabilization measures. The Programme has other dimensions of crucial importance, dimensions to which relatively little attention has been paid since the Nairobi Conference. With the progress achieved on the Common Fund and the prospect of more rapid advance in the discussions and negotiations on individual products, it is important that the Conference at its fifth session should turn specially to these other aspects of the Integrated Programme.

25. One of these aspects is the need for developing countries to increase their share of, and improve their position in, the marketing, distribution and transportation of products. The many facets of this problem are elaborated in separate documents before the Conference. To a considerable extent, the actions needed in this field have to be taken by the developing countries themselves but these could be facilitated by a framework of support and accommodation by the international community. Many important issues are involved in this area. For example, there are the questions that surround the very technique of marketing itself. Several commodities continue to be sold today through auctions and similar systems whose origins lie in much earlier times, when buyers were less concentrated and more open to the influence of competition than today. The manner in which these systems should evolve and be adapted is clearly a pertinent issue. Closely related to this is the fact that in the present context an increase in the participation of developing countries in marketing and distribution will affect their relationships with transnational companies which play a major role in commodity trade—relationships which need to be made more equitable, so as to allow developing countries a more adequate share of the benefits of this trade.

26. Similarly, a complex of issues surrounds the goal of increasing the participation of developing countries in the processing of their products. These issues are part of the wider question of industrialization and include such aspects as access to markets in industrialized countries, relationships with transnational corporations and trade among the developing countries themselves. The problem of market access has acquired a new urgency against the background of the increasing trend towards protectionism in the industrialized countries and therefore requires particular attention in the context both of the wider treatment of this issue and of specific solutions to commodity problems. The

questions bound up with the objective of enhancing the participation and share of developing countries in the transportation of commodities are similarly wide-ranging. But they are particularly linked to the objective of increasing the participation of these countries in world shipping.

27. Compensatory financing is also a basic element of the Integrated Programme. The subject has received emphasis in proposals recently before the Development Committee of the World Bank and IMF[6] calling for a study of possibilities relating to a globalized scheme for the stabilization of export earnings—a scheme that would reflect some of the principal elements of the STABEX scheme extended by the European Economic Community to the African, Caribbean and Pacific countries. In terms of the Integrated Programme, however, compensatory financing needs to be viewed as a supplement to, rather than a substitute for, instruments such as commodity agreements which aim directly at the regulation of prices themselves. When there is a malfunctioning of particular commodity markets, it is important to correct such malfunctioning so that patterns of production, consumption and investment are not unfavourably influenced by extreme and erratic price movements. Compensatory finance can, however, usefully play a supporting role in market regulation—both because it may not prove possible to bring all commodities under international agreements that support prices and also because earnings of producers, which are affected by variations in the volume of exports as much as by price fluctuations, need also to be stabilized.

28. The existing compensatory financing facility of IMF is limited in many ways—in respect of its size, the conditions governing its use, and the terms of repayment. A major revision of the existing facility is a possible option in the search for an adequate scheme. An alternative is the establishment of a new facility that, unlike the Fund facility, is specifically commodity-oriented. In such an event, consideration needs to be given to establishing such a new facility as an additional activity—a third window, possibly—of the Common Fund. This would be a plausible course, since the Common Fund would itself be a commodity-oriented financial institution concerned with more than one aspect of the commodity problem. Together with the second window, which would deal with measures of a developmental nature, an additional activity in the form of a compensatory financing facility would round off the character of the Common Fund and turn it into a truly comprehensive institution in the commodity arena. It would thus be relevant to view the issue of compensatory financing in that light.

B. Restructuring international trade in manufactures

29. Whilst the basic elements which are of relevance to the restructuring of international trade in commodities were incorporated in the Integrated Programme adopted by the Conference at its fourth session the Conference at Manila will need to pay particular attention to the subject of trade in manufactures. The fundamental issues pertinent to this were already discussed at the fourth session, where the need was stressed for a comprehensive approach that would extend beyond the requirement of market access alone and encompass requirements on the supply side relating to investment, production and technology. Such an approach, setting out the basic aspects of the problem, remains valid today.

30. However, in the period since the Nairobi Conference, there has been mounting anxiety regarding one aspect of the problem—the increasing barriers to market access that have been emerging in the industrialized countries themselves. Such a trend, if it continues and accelerates, could menace the realization of one of the basic objectives of the development process itself—the industrialization of the developing countries. It is indeed one of the most negative developments of recent times, one that runs counter to a basic tenet of the whole post-war trading system firmly held to by the developed countries themselves—the need for an open system that would foster the flow and growth of trade between countries. Ironically, the trend towards the "new protectionism" coincided with what purported to be a major global exercise in trade liberalization—the multilateral trade negotiations. Although these negotiations have still to be concluded, and it is not yet possible fully to assess their results, there can be little doubt that they have been robbed of their earlier promise by the contrary and pernicious phenomenon of restrictionism in trade.

31. The impact on the developing countries of protectionism in the developed countries is not confined to their trade in a handful of manufactured products—textiles, clothing, leather goods, footwear, etc.—of which they have been traditionally low-cost producers. It reaches out, or threatens to reach out, to whatever industrial goods are being produced in substantial amounts for export by the developing countries—steel, shipbuilding, electronics, in fact any such production as does emerge. Nor is the impact of protectionism of relevance only to a relatively few developing countries. It can, on the contrary, affect all countries as they progress on the path of economic transformation. Already a number of the smaller and less industrialized developing countries with newly acquired manufacturing capacity are beginning to feel the impact of the current trends—often in the very products on which the more industrialized developing countries had earlier concentrated. The risk of protectionism poses major dilemmas for planning and industrial strategy in the developing countries. Up to now, these countries had been admonished—by international bodies and other advisers—for pursuing inward-looking, import-substituting patterns of industrial development. They had been faulted for being insufficiently receptive to the benefits of private foreign investment. Yet, in pursuing the alternative course of an outward-looking pattern of growth, they face the prospect of barriers to their exports—barriers that are sometimes defended on the very grounds of their punitive impact on foreign investors and transnational corporations.

32. It has to be recognized, of course, that the acceleration of the protectionist trend in developed countries is a result of the crisis of recession and unemployment recently experienced by them. Official policy in these countries has continued to express support for the principle of an open and liberal trading system in which restrictionism is viewed as the exception rather than the norm.

[6] Joint Ministerial Committee of the Boards of Governors of the World Bank and the International Monetary Fund on the Transfer of Real Resources to Developing Countries.

Departures from the open system have been a response to acute political and social problems, particularly in the field of employment. Often, the industries affected by competition from developing country imports have been labour-intensive industries, established in economically backward areas, with wage structures inferior to those prevailing in other parts of the economy. The alternative opportunities available to labour—as well as to capital and management—in these industries have been reduced by the loss of dynamism in other parts of the economy, against a background of recession and a slow tempo of recovery. In such a situation, protectionism has been seen to offer a temporary shelter until the passing of the storm.

33. If protectionism in the industrialized countries is only a temporary phenomenon brought about by recession, it could indeed be expected to fade away in the process of recovery in these countries. However, it is quite unlikely that this would be the case. Apart from the possibility that the recession itself is not of a purely cyclical character, that it is rather a symptom of a deeper malaise requiring more fundamental changes of a structural kind in the industrialized countries—a process that can itself be hindered by protectionism—there is a more basic long-term issue that is related to the rising tempo of industrialization in the developing countries themselves. In the process of industrialization and economic transformation, the developing countries will progressively acquire new capacities for production over an ever widening range of products. This will find its counterpart in new capacities for export requiring market outlets. Whilst to some extent these outlets will need to be found in trade with other developing countries—a process which could itself gather momentum over time—they must in large part lie for some time to come in the markets of the industrialized countries. The problem, however, is that the industrialized countries already have at their disposal production capacities covering virtually the full range of manufactured goods. The accommodation of developing country imports is likely, therefore, to give rise to competition with prevailing activities, with all its concomitant problems. Moreover, this tendency is likely to increase rather than recede in the long term, as developing countries speed up their industrialization.

34. The fundamental answer to this problem cannot, however, be the perpetuation and intensification of protectionism in the industrialized countries. Such a course is not in the long-term economic interest of these countries themselves. It could also bear the seeds of future global political convulsions. The industrialized countries will not gain by the perpetuation of their prevailing industrial structures. The resilience and growth of their economies require a dynamic process of change and adaptation, a continuing shift of factors of production from less productive to more productive activities, a continuing process of technological change and innovation. The essential problem facing the industrialized countries is not how to shelter domestic industries from competing imports from developing countries but how the frictions—political, social and economic—that would arise from a changing pattern of trade and industrialization could be minimized and dealt with. Fundamentally, both the industrialized and the developing countries have a convergence of interest in a dynamic process of change and adaptation. They have a common stake, therefore, in policies and measures that facilitate this process.

35. Protectionism is inimical to the long-term interests of the industrialized countries for another reason as well. Whilst competing imports from developing countries may result in a loss of jobs in the sectors affected, new jobs are created as a result of exports to the developing countries. In fact, recent studies have indicated that imports from developing countries have had only a marginal impact on jobs in sectors facing competition from them. On the other hand, exports of manufactures from industrialized to developing countries have played a supporting role in dampening the effects of the recent recession. Illustrative of this is the fact that developing countries accounted for 30 per cent of the increase in the value of developed market-economy countries' total exports of manufactures between 1973 and 1977, in contrast to 15 per cent of the increase in such exports from 1962 to 1973, a period of unprecedented growth in international trade. In 1977, imports of manufactured goods by the developed market-economy countries from developing countries amounted to around $32 billion. At the same time, exports of these goods from developed market-economy countries to developing countries stood at around $125 billion. Quite clearly, restrictions on the earning capacity of the developing countries through protectionism or other means will have their impact on the purchasing power of these countries. They can contribute to a spiral of contraction in the developed countries themselves. Labour unions in the export industries of the industrialized countries should be as interested in the issue of protectionism as are unions in the industries competing with imports.

36. For all these reasons, it is a matter of urgency that the international community—both developed and developing countries—should give attention to the manner in which the protectionist trend could be arrested and reversed. The problem needs to be attacked from both the short-term and the long-term point of view. In the short term, the pressing need is to ensure that barriers to trade with developing countries are not resorted to, save in the most exceptional of situations and as a last resort, and that when such barriers are imposed they conform to principles and disciplines that are broadly recognized by the international community. Such principles must underline the purely temporary character of the restrictions and a commitment to dismantle them as soon as possible, the need to identify the instruments used, the need to avoid discrimination, the need for consultation with the parties affected, and the need for surveillance. Devices such as "voluntary export restraints" and "orderly marketing arrangements" do not come within the purview of the GATT rules on tariff and non-tariff barriers. The same considerations which persuaded the international community to bring action in the fields of tariff and non-tariff measures within a framework of internationally accepted rules must apply to these other restrictive measures also. In the multilateral trade negotiations, a serious effort was made to reduce substantially the ease with which developed countries could resort to such measures, but this effort appears to have largely failed. In any event, the developing countries, and indeed the international community, should not find satisfaction in partial responses. There is a need to pursue the goal of an internationally accepted, effective, and comprehensive framework to deal with the short-term

aspects of the protectionist issue. This is a major task before the Manila Conference. Without such a framework, there is the danger that protectionist measures introduced as temporary expedients will grow in intensity and assume a permanent character. The restrictions in textile imports provide a striking example—18 years have now elapsed since they were first introduced on a temporary basis!

37. The long-term aspect of the problem is even more fundamental. Whilst there may be strong compulsions to have recourse to protectionist measures as temporary expedients in a situation of crisis, given the convergence of interest in the avoidance of protectionism as a long-term phenomenon, there is a vital need for policies and measures that ensure this result. As mentioned before, the rising export capacity of the developing countries can to a large extent and with mutual benefit be accommodated by the industrialized countries if there is a process of dynamic adaptation in the economies of these latter countries. The heart of the problem is how this process could be encouraged and accelerated by policy measures in the industrialized countries and how the social, political and economic frictions generated could be minimized. To a large extent, these frictions would themselves be reduced by a process of change and adaptation which increased employment opportunities in the dynamic sectors of the economy. But policy measures aimed at such a goal can clearly be at cross purposes with measures of protectionism that perpetuate the less efficient industries and delay the process of change.

38. Despite the interest of the industrialized countries in appropriate policies of adjustment, the issue cannot be seen as largely a matter of national concern. The issues at stake concern the entire international community, since they have a direct bearing not only on the future growth prospects of the developing countries but also on the character of the entire international trading system in the future. For this reason, there is a need for the formulation and adoption of an internationally accepted framework of principles or guidelines which will help to secure harmony between national and international needs and objectives and thus provide a frame of reference for policy making. What is basically at stake is the future pattern of distribution of world industry and of trade in industrial products. In the absence of an adequate international framework to guide industrial policy, conflicts are likely to increase, leading to a waste of resources in both the developing and the developed countries. On the other hand, a framework of agreed principles which includes an endorsement of policies of adjustment and of adjustment assistance and provides for consultation on issues of relevance to particular sectors of trade will contribute significantly towards dealing with the longer-term aspects of the problem of protectionism. In this connexion, it is important to recognize that the provision of market access to developing countries should not be seen as being exclusively a matter involving the closure or restriction of existing activities in the industrialized countries. Just as in the case of the trade among the industrialized countries themselves, there is considerable scope for intra-branch specialization in trade with the developing countries. Such specialization would help to foster complementary rather than competitive relationships in respect of such trade.

39. The discussion above has centered on the rising trend towards protectionism in the industrialized countries—what has been called the "new protectionism". The question may be asked whether the same considerations do not also apply to protectionism on the part of the developing countries. The answer has to be that there is no exact parallel between the two phenomena. The rationale for protectionism in developing countries has been well recognized in terms of the "infant industry" argument—extended to take into account also the wider limitations in terms of infrastructure of a growing but weak economy. In the long term, such protectionism, which would still be temporary but of much longer duration, can be seen as contributing to growth and efficiency. The same cannot be said for the merits of protecting aging industries—except temporarily as a means of smoothing out the frictions that stand in the way of adaptation to change. Protectionism in the developing countries could of course be carried too far—to the detriment of growth and efficiency in these countries, and it is right to draw attention to this danger. But here the criticism is of the incorrect use of the instrument rather than of the instrument itself. From the international point of view, there is another, even more important consideration. Protectionism imposed by the industrialized countries can be directly restrictive of world trade by reducing the earning capacity of developing countries and hence their capacity to import. Protectionism imposed by the developing countries does not have quite the same effect, since these countries tend in any case to spend all their export earnings, and more, on imports—mostly from the developed countries. The foreign exchange saved by restrictions on some types of goods are utilized for imports of other types. Hence, protectionism has more of an impact on the pattern of imports than on their total.

40. The entire question of market access and how to improve it is of course the central issue of the multilateral trade negotiations. It remains to be seen how far these negotiations will succeed in improving the access of developing countries to the markets of the industrialized countries. But even on the most optimistic of assumptions, there is little likelihood that they will deal adequately and decisively with the problem of the new protectionism. It is a problem therefore to which the Conference must turn its attention at its fifth session. The evaluation of the multilateral trade negotiations is itself a subject on its agenda. Although the final outcome of the negotiations still remains to be seen, there are already indications that their result will fall short of the expectations of the developing countries in the light of the original statement of objectives in the Tokyo Declaration.[7] This underlines all the more the importance of follow-up action in the aftermath of the multilateral trade negotiations.

41. Another item on the agenda in the field of trade in manufactured goods concerns the generalized system of preferences (GSP). It has for long been an objective of the developing countries to establish the GSP more securely as a recognized instrument of international policy. It is important not only to remove limits to the duration of the system, but also to extend its applicability and to alter its present purely unilateral character by subjecting it to a negotiating process. In this context, there have been

[7] 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.

suggestions, from the industrialized countries, for the introduction of a system of graduation, in terms of which preferences will be reduced or withdrawn for the more advanced of the developing countries. It is easy to understand the logic of this suggestion. To the extent that preferences are extended to developing countries as a means of facilitating their exports, the rationale underlying them will cease to apply once individual countries emerge out of that category and join the ranks of the industrialized nations.

42. The essential question, however, concerns the point at which the transition will be seen to have taken place. Moreover, the countries in the category of the developing countries, despite the acquisition of manufacturing capacity, continue to remain far behind most of the industrialized countries in respect of levels of *per capita* income. If reaching the *per capita* income levels of the advanced countries is the criterion, it will take a considerable time before even a few of the developing countries pass the test of graduation. If, on the other hand, the signal is to be the very effectiveness of the GSP in stimulating exports from particular developing countries, this will run counter to the very purpose of the system, which is precisely to facilitate such exports until the economies of these countries are sufficiently transformed. Until such a point is reached, it is difficult to justify measures that would impair their progress. From this point of view, it would seem somewhat premature in the present context to depart from non-discrimination—one of the basic principles of the GSP—and to introduce the concept of graduation and differentiation among developing countries. It is relevant to note that while four developing countries—Argentina, Brazil, India and Mexico—with a total population of 829 million, account for more than half of the production of manufactures in the third world, their share in the total of world manufacturing production is much the same as that of Italy, with a population of 56 million.

43. The subject of restrictive business practices is also of relevance to the reform of the structure of international trade in manufactures. The use of such devices as "voluntary export restraints" and "orderly marketing arrangements" referred to earlier (para. 36) has led also to a greater use of private cartels and thus of restrictive business practices. The need for international action to regulate such practices, including those of transnational corporations, has been under intensive consideration in an *Ad hoc* Group of Experts in UNCTAD which has been preparing a set of equitable principles and rules for this purpose.[8] The fifth session of the Conference is called upon to consider and take appropriate action on the outstanding issues, and to determine the dates of the negotiating conference on this subject. Also before the Manila Conference is the wider question of review and follow-up action in respect of the Nairobi decision (Conference resolution 96 (IV)) on comprehensive measures for the expansion and diversification of the trade in manufactures of developing countries.

C. Restructuring the international monetary and financial framework

44. The restructuring of the international monetary and financial framework is another of the major themes of the fifth session of the Conference. Indeed, world economic developments since the fourth session have only underlined the importance and urgency of action in this area. The prevailing weaknesses in this field are deeply relevant to the difficulties and crises of recent times. They have affected adversely the developed and developing countries alike and both groups have a common stake in adaptation and reform. The need for action covers a number of fronts.

45. In the first place, there is the need to revive or revitalize the discussions and negotiations pertaining to a reform of the international monetary system. It is already some years since some of the basic elements of the Bretton Woods system came to be seriously undermined, if not destroyed. It is already some years also since a blueprint for reform was outlined and discussed in IMF. There has been even a wide acceptance of some of the principal features of a new system—including the nature and role of the special drawing right (SDR) as the principal reserve asset. Yet, progress towards the actual reform of the system appears to have stalled. Instead, in the face of dislocations and disturbances, there has been recourse to *ad hoc* improvisations and makeshift arrangements, some of which run counter to the need for more durable and fundamental reforms, or serve, at least, to postpone them.

46. The basic requirements of a reformed system have been outlined on many occasions. They include the need for international control over the process of creating international liquidity and the corresponding need for the SDR to replace currencies as the principal reserve asset; the need—widely accepted but yet to be implemented—for the establishment of a link between the creation of SDRs and development assistance; the need for mechanisms that foster better balanced and more speedy processes of adjustment with more symmetrical obligations as between countries with surpluses and countries with deficits on current account; the need for more predictable and stable systems of exchange rates and for conditions that foster more orderly capital flows; and, not least, the need for developing countries to exercise a greater voice in the decision-making process.

47. The reform of the international monetary system will not be negotiated at the fifth session, but the Conference could make a significant contribution by spelling out the requirements of a reformed and global system and by giving a strong political thrust to the need for action in this field. The absence of a coherent system can entail a heavy cost to the international community. The problems of inflation, unemployment and slow recovery from recession that continue to affect the developed countries are not unconnected with the failure to reform the international monetary system; nor are the problems experienced by many developing countries through losses in their terms of trade and the real value of their assets owing to fluctuations in the exchange rates of major currencies. Many features of the current situation could have, in fact, consequences of a seriously disruptive or disturbing nature in the future. These include the increasing tendency for the creation of international liquidity to be assumed by the private sector instead of by IMF, the emergence of

[8] See "Report of the Third *Ad Hoc* Group of Experts on Restrictive Business Practices on its sixth session" (Geneva, 17-27 April 1979) (TD/250 and Corr.1).

conditions favouring disruptive movements of short-term funds, and the channelling of liquid balances by the private capital market to developing countries at excessively short maturities and high interest rates. If uncorrected, these features could severely undermine the prospects for sustained recovery and growth in both developed and developing countries and lay the foundation for deeper crises in the period ahead.

48. A second area in which action is urgently needed is related to the requirements of a better monetary system but is not wholly contingent on comprehensive reforms and need not, therefore, await their implementation. This concerns the need to enhance the adequacy of the facilities at present available to the developing countries to help them to cope with their balance-of-payments problems, and also to improve or modify the conditions which govern the use of those facilities.

49. The underlying philosophy of the monetary system set up at Bretton Woods was that countries should subscribe to the maintenance of an open system of convertible currencies, stable exchange rates, and the absence of restrictions on trade and payments. In this way, it was hoped to avoid a return to the mutually harmful policies of the pre-war period. To help countries to abstain from restrictionism in periods of payments crises, they were provided with access to financial accommodations from IMF. These were to help to finance short-term deficits and maladjustments until corrective measures of a non-restrictive kind had their effect.

50. The relevance of this philosophy to the needs of developing countries was perhaps always in question. An essential need of developing countries is to be able to finance a level of imports commensurate with their development objectives. The ease with which they could subscribe in practice to the tenets of an open system depends on the extent to which this need is satisfied. When it is not, the short-term and limited amounts of accommodation that the Fund can provide offer little compensation. Indeed, it is hardly surprising that developing countries have often valued support from the Fund not because of its scale but because of the confidence which adherence to Fund precepts, in the field of discipline and conditionality, generates in other donors and providers of long-term finance.

51. The limitations of the facilities at present available to developing countries have in the recent period become particularly and forcefully apparent. During the last few years, the payments deficits of the non-oil-producing countries, taken together, increased substantially, reflecting the multiple crises afflicting the international economy. Yet, despite valuable efforts by the Fund to increase the resources at its disposal, the wider network of official facilities available to developing countries to cope with the new situation proved starkly inadequate. A limited number of developing countries was able to have recourse to private capital markets for accommodation—a process that was facilitated by the increased liquidity of the banking system, itself a reflection, in no small part, of payments imbalances and the continuing recession. This process has resulted in a significant acceleration of the volume of commercial indebtedness of developing countries, reflecting borrowings at short maturities and market rates of interest. For most developing countries, however, even this source was not available. Although to some extent additional accommodations were provided by IMF and other lending agencies, and by donor countries, the amounts made available fell desperately short of requirements. In consequence, these countries have had little option but to curtail severely their import levels and so place in jeopardy their investment levels and development programmes. As a result, the targets and objectives of the Second United Nations Development Decade—internationally agreed upon—were put beyond reach.

52. The experience of recent times has brought into focus not only the question of the adequacy of the facilities available to developing countries to cope with their payments problems, but also the related issue of the adjustment policies which have hitherto conditioned the use of the Fund's resources. This issue has been the subject of a recent study by UNCTAD, undertaken with UNDP support.[9] The study questions the extent to which policies of internal contraction and adjustment in developing countries are a valid corrective or response to disturbances of external origin. It also sharply highlights the issue of the efficacy and relevance of short-term financial support in meeting problems of a more enduring structural character. A major conclusion of the study is that a gap exists in the prevailing network of facilities, a gap which needs to be filled by the establishment of a medium-term multilateral facility. Such a step could constitute an important part of the international effort to improve the existing system and to make it more responsive to the needs of developing countries.

53. In the context of the present discussion, it is also relevant to point to another proposal before the Conference at its fifth session—the establishment of an export credit guarantee facility. This would help to meet a long-felt need and thus enhance the capacity of developing countries to promote their exports of manufactured goods. The limitations that developing countries have hitherto encountered in this field have placed them at a disadvantage in securing external markets for their products.

54. A third area which is relevant to the restructuring of the international monetary and financial framework concerns the treatment of debt problems. There are two aspects to this issue—the question of the measures to be taken to provide immediate or early relief for debt problems which have become burdensome and are impeding development efforts, particularly of the poorer countries, and the introduction of an internationally agreed framework of principles, procedures and mechanisms which will help in the future treatment of debt problems.

55. Both aspects of the problem have been the subject of attention in UNCTAD and will require action at Manila. The question of the official external debt of the developing countries was the subject of a resolution of the Trade and Development Board adopted at the third (Ministerial) part of its ninth session, held in March 1978. On this occasion, there was agreement to provide relief to the poorer developing countries by means of retrospective adjustments in the terms of their past official development assistance debt so as to conform to the current softer terms being

[9] *The Balance-of-payments Adjustment Process in Developing Countries: Report to the Group of Twenty-four* (New York, Pergamon Press, 1980).

applied by donors.[10] For the least developed countries, for which grants are the current norm, this implies a writing-off of such debts; for the others, a scaling down and spreading of annual debt service charges. A few donor countries had taken action in this direction even prior to the Ministerial session of the Board, but most of them have acted subsequently or announced their intention of doing so. By the end of 1978, 11 major creditor countries had committed themselves to converting into grants $6.2 billion of loans owed by the poorest countries, representing an annual saving in debt service costs of $300 million over the next 20 years. The implementation of the actions envisaged at the Ministerial session has, however, still to be completed. Not all major donors have detailed the steps they intend to take in this regard. In a number of instances, too, the determination of the beneficiary countries has fallen short of what was envisaged in the Board resolution. The Manila Conference is called upon to review the implementation of this resolution. It needs to be added that the question of the commercial debts of developing countries was not the subject of active discussion at the Ministerial session of the Board.

56. The second aspect of the debt issue concerns the adoption of an internationally accepted framework of practices and principles to guide debt operations relating to interested developing countries. At present, there is no uniform and internationally agreed set of principles to guide the treatment of the debt problems of the developing countries. There is no system that would ensure that countries in similar situations will receive similar treatment, and no assurance that the remedial actions taken will pay sufficient attention to the wider developmental needs of these countries.

57. The question of principles and features was the subject of alternative proposals presented by the developing and the developed countries at the Paris Conference on International Economic Co-operation. But although these proposals had several common elements, no agreement was reached. Since that time, the question has been discussed in UNCTAD by an intergovernmental group of experts and significant progress has been made.[11] The prospects are favourable, therefore, for reaching agreement on this issue and for the adoption of a multilateral framework of guiding features and principles. This is a subject before the Manila Conference. A suggestion has been made in this context for the establishment of an international debt commission made up of eminent persons who could examine objectively the over-all position of debtor countries and be responsible for the effective and equitable implementation of the guiding features in the context of international economic co-operation, at the request of these countries, as a contribution to the process of organizing debt relief. Such an operation would take into account the relationship between debt problems and development needs and contribute to timely action well before the stage of default.

58. A fourth issue of relevance to a better structure in the monetary and financial field relates to the long-term transfer of resources to developing countries. This must be the focus of serious attention at Manila. The failure of the major donor countries to conform to the 0.7 per cent target for official development assistance has been cited as evidence of a serious lack of political will towards achieving the goals of international co-operation for development. Development aid has been one of the preferred instruments of the industrialized countries themselves and the failure to conform to international targets in this area must naturally be taken as a reflection of the real degree of commitment of these countries to the needs of the development process. Some industrialized countries, particularly the smaller ones, have already reached this target and even surpassed it. But the focus will be sharpened on some of the largest donor countries, whose performance has in fact shown a retrogression. Until the developed countries show a convincing improvement in their performance, the seriousness of their commitment to international co-operation for development will inevitably remain in question. The issues in the field of long-term resource transfers are not confined to the volume of official development assistance. They also touch on such questions as the untying of aid, the need for programme aid, the regularity and predictability of aid flows, and the resource availability in the long-term lending institutions. These are not new subjects. But the fact that they remain on the agenda for the fifth session of the Conference is evidence of the shortcomings that persist in respect of this particular dimension of international co-operation for development.

59. The lack of coherence of international policy in the entire field of resource transfers has prompted the suggestion that there is now a need for a consistent and comprehensive framework for international financial co-operation. Such a framework would bring within its compass each of the major elements of relevance to financial co-operation for development—bilateral and multilateral aid and lending, debt policy, access to capital markets, balance-of-payments accommodation, and so on. The essential objectives would be to ensure that the several instruments of financial co-operation are mutually supporting and, most important of all, that in sum they provide for a total of resource flows which will be commensurate with the scale of resource needs for development. The basic elements of such a framework could, of course, evolve over time in the direction of a shift towards greater predictability, even automaticity, in resource flows and towards the forging of instruments appropriate to such a goal. The Manila Conference could give consideration to the form and characteristics of a suitable framework for international financial co-operation and initiate a process of consultation and negotiation that will lead towards its establishment.

D. The thrust towards collective self-reliance

60. The subject of economic co-operation amongst developing countries is another of the major issues before the Manila Conference. It will occupy a place of a particular importance on the agenda, both because it is central to the restructuring of international economic relationships—the theme of the fifth session of the Conference—and because it has gained momentum in the political sense since the fourth session. Collective self-reliance is one of the corner-stones

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[10] Resolution 165 (S-IX), entitled "Debt and development problems of developing countries", adopted on 11 March 1978.

[11] See "Report of the Intergovernmental Group of Experts on Debt and Development Problems of Developing Countries" (Geneva, 2-11 October 1978) (*Official Records of the Trade and Development Board, Tenth Special Session, Annexes*, agenda item 3, document TD/B/730).

of the concept of the New International Economic Order. It is a goal that is likely to increase in prominence in the 1980s.

61. There are two dimensions to the concept of economic co-operation among developing countries. The first relates to the need for extending and expanding trade and other linkages among these countries; the second to the need for them to co-operate with one another in bringing about changes and improvements in their relationships with the rest of the world. Each of these aspects is gaining in importance against the back-drop of the evolving international economic situation.

62. The strengthening of trade and other links between developing countries is crucial to any restructuring of international economic relationships, because it is the means of reducing the economic dependence of these countries on the industrialized countries—for the most part the metropolitan Powers of earlier times. It is also important because it offers, in large part at least, a solution to some of the problems they are likely to encounter in the process of economic growth and transformation. Quite clearly, the growing export surpluses of the developing countries cannot all be absorbed by the present industrialized countries, even if there were no barriers to market access in these countries. Increasingly, the developing countries must look to one another for markets and for sources of supply of raw materials and manufactured goods. Collective self-reliance, from this point of view, can become an engine of growth and development.

63. Trade amongst developing countries is likely to continue increasing spontaneously through the operation of market forces. But such trade, whether regional or interregional, is still of minor dimensions, and the process of normal growth will be slow. Habit and the lack of adequate communications are powerful obstacles that need to be overcome. The goal has therefore to be consciously pursued. It has to be fostered through policies and mechanisms specially fashioned for the purpose. This need for conscious action is the essence of the concept of economic co-operation amongst developing countries.

64. There are several aspects of relevance to the forging of policies of co-operation aimed at intensifying trade and other exchanges among developing countries. First, there is the question of the breadth and coverage of co-operative activities. The developing countries span three continents. Many policies and instruments of co-operation will relate to small groups of countries, usually contiguous ones. Indeed, such examples of co-operation as now exist are largely of this kind and it is this category that lends itself to integration arrangements—the closest type of co-operation. But co-operation among developing countries should also be on the regional and interregional, or global, scale. Certain types of co-operative arrangements are in fact applicable over a wider canvas—common institutions, frameworks of rules and principles, trade concessions, and so on. Indeed, the developing countries are so numerous and their territories so extensive that virtually any measures or institutions intended to operate at international level generally can conceivably be applied also to the developing countries as a group. The concept of collective self-reliance can be taken to apply to co-operation at all levels. But the strengthening of the position of the developing countries as a group, and actions that involve co-operation amongst all such countries, must be an essential dimension, political no less than economic, of the concept. For this reason, special attention needs to be given to instruments of co-operation amongst developing countries applicable "across the board"—instruments such as schemes of trade preference and third-world institutions and actions in economic, financial and other fields. The major question that arises in this context is the way in which such instruments can be made consistent with and reinforce similar instruments designed to promote co-operation at the regional and subregional levels.

65. A second aspect relates to the kind of instruments to be used to promote co-operation. There are, of course, a number of possible instruments, some of which—such as a trade preference scheme—facilitate trade, and others—such as contracts—which promote it in a more direct manner. But whatever the instrument, if the objective is to overcome the weakness of developing countries in market competition with the developed countries, its efficacy would be enhanced if it incorporated the principle that developing countries should provide preferential or special treatment in favour of one another, within an accepted framework of rules and guidelines.

66. The third aspect is a related one. Systems or instruments of co-operation among developing countries must take account, whenever it is appropriate to do so, of differences between these countries. The successful treatment of this issue is crucial to the success of the whole endeavour. This is as true at the subregional and regional level as it is at the interregional level. The developing countries are not a homogenous group. They comprise countries at different levels of development and of different economic strengths. Co-operative arrangements which afford no protection to the weaker countries against the stronger will serve only to widen the gap between them and to increase tensions amongst the partners. The differentiation that exists amongst the developing countries can, however, be a strength rather than a weakness. The varying capacities and endowments of these countries offer a greater potential for mutually-reinforcing development than would be possible if all countries were similarly placed and endowed. The movement of skills in recent times between developing countries is an illustration of this. So too is the prospect for beneficial exchanges in the field of appropriate technologies. Nevertheless, a conscious and careful effort is needed to ensure that differences between developing countries lead to positive rather than negative results. This is an approach that must govern every effort to forge instruments of co-operation among developing countries. Existing systems of co-operation at the regional or subregional levels already provide a fund of useful experience in the handling of this problem and future initiatives should make use of the lessons they offer.

67. The other major dimension of economic co-operation concerns the co-operation of developing countries with one another in order to improve their relations vis-à-vis the outside world. Here again, there are at least two aspects to the concept. One relates to co-operative arrangements among themselves that strengthen their position, in one way or another, in trading and related activities. The other refers to co-operation for the purpose of obtaining better results in the area of international negotiations.

68. There are a number of possibilities of relevance to the first category of co-operative arrangements. The essential principle here is combination on the part of developing countries to enhance their market strength. This principle can apply to a range of activities in the field of exports and imports ranging from joint ventures to common arrangements for import procurement. One of the most important prospects lies, however, in the field of commodity trade, where producers, by co-operation in supply management, can improve—and even transform—their present market strength.

69. Producer associations can also strengthen the negotiating position of producers in international commodity agreements. But, where feasible, they can go further and directly organize the provision of supplies to markets and thereby improve prices. In this connexion, the adoption of articles of agreement for a federation of producer associations of developing countries is potentially a significant step.

70. Co-operation among developing countries in the area of international negotiation assumes a special importance in the context of the relations between developed and developing countries. The establishment of the Group of 77 in 1964 at the time of the first session of the Conference was the first manifestation of co-operative activity of this kind. The fact that the Group of 77 has persisted, increased in number, and made its appearance in many other international forums is a mark of its success. But, in the current phase, there are new challenges to be overcome. Issues in the field of international co-operation for development are moving away from the stage of the formulation of broad objectives to that of complex negotiations on specific issues. This requires that the developing countries succeed in forging common positions on such issues by reconciling conflicts of interest amongst themselves. This in turn calls for expertise and skill and a capacity, if needed, to increase their leverage by mobilizing their own power of action, sometimes by committing their own resources. Measures to improve the expertise and preparedness of developing countries in the negotiating process are therefore an important aspect of co-operation among these countries.

71. The issue of co-operation among developing countries has now passed beyond the stage of commitment to the general principle. At successive meetings of developing countries, the several possibilities for co-operation have been identified and enunciated in specific terms. The feasibility of many of these proposals has been examined in studies by UNCTAD itself. The essential need is to proceed with their implementation. The possibilities in this realm are vast and it is important therefore to establish priorities and concentrate attention on their realization. The launching of even a few important endeavours will give credence to the concept of collective self-reliance.

72. The content of co-operation amongst developing countries has essentially to be determined by these countries themselves. Yet the process must not be seen as an attempt at self-contained growth. Rather it must form part of any global strategy for development. In terms of specific aspects, it should attract support from the developed countries themselves. It is for this reason that economic co-operation among developing countries must remain a critical concern of the United Nations system and of UNCTAD in particular—in fulfilment of the aims which have been set out in successive General Assembly and UNCTAD resolutions. Ways need to be found that will enable developing countries to discuss amongst themselves and pursue co-operative arrangements within the framework of and with the assistance of UNCTAD and other parts of the United Nations system. This process has at the same time to be made consistent with the concerns of other groups and fitted in to a global strategy for development. The mounting tempo of interest and activity in the field of economic co-operation for development is in a sense a new phenomenon, to which UNCTAD needs to respond with new modalities—in close collaboration with the regional commissions and other interested agencies.

73. The Arusha Programme for Collective Self-Reliance presented by the Group of 77 to the Conference at its fifth session, encompasses a number of specific proposals and activities which need follow-up work and action in terms of the short to medium-term action plan for global priorities which it contains.[12] These include a global system of trade preferences among developing countries, the creation of joint ventures among them, co-operative arrangements amongst State trading organizations, co-operation in import procurement, the establishment of multinational enterprises, measures to strengthen the integration process, the establishment of third world monetary arrangements such as payments and clearing arrangements, and the creation of third world banking institutions. The Manila Conference has to respond to this need by endorsing international support measures where relevant, including activities to be undertaken by UNCTAD in the period ahead. A number of specific programmes in UNCTAD await such endorsement.

E. Other issues before the Conference

74. There are a number of other important issues on the Manila agenda. These include the subjects of technology, trade between countries having different economic and social systems, shipping, the special problems of the least developed countries, and the problems of other specially disadvantaged categories of countries—the land-locked and island developing countries. In one way or another, these issues form an integral part of the major issues discussed earlier. However, because of their special character they figure as independent items on the agenda, calling for particular decisions.

1. *Technology*

75. The issues in the area of technology are intimately linked to the problem of the economic and social transformation of developing countries, particularly in the direction of industrialization. The industrialization and development objectives of developing countries have major implications for national and international policies in the field of technology. There is an urgent need for reducing the technological dependence of developing countries—a dependence which carries with it a number of serious constraints on their development efforts—and for building up an adequate technological capability in these countries themselves. This theme has been the concern of UNCTAD for some time. The Conference took certain decisions of

[12] See section II of the Arusha Programme (vol. I, annex VI).

major importance in the area of technology at its fourth session, particularly the decision to initiate a process of negotiation of a code of conduct on the transfer of technology.[13] Another decision taken at Nairobi[14] also called on UNCTAD to make a vital contribution to the economic development and commercial aspects of the revision of the industrial property system—the legal arrangements and practices relating to patents and trade marks—in the context of the revision of the Paris Convention being undertaken under the auspices of WIPO. At its fifth session, the Conference will need to take stock of progress on both these fronts. Two sessions of the United Nations Conference on an International Code of Conduct on the Transfer of Technology have already concluded. The United Nations Conference on Trade and Development at Manila will need to determine the further action called for in this area, taking into account the progress made at these sessions and the problems which still remain to be resolved. The decisions of the Conference will have a critical bearing on the completion of this important initiative.

76. There are other major issues in the area of technology before the Conference. Foremost amongst these is the subject of the transformation of the indigenous technological capability of the developing countries. The transfer of technology from the industrialized countries to the developing countries is a vital and important process whose efficiency and terms need to be improved to as great an extent as possible. But it needs to be recognized that improved terms and conditions of access to the technology of the developed countries will not by themselves suffice to strengthen the technological capability of the developing countries or to accelerate their technological transformation. For the attainment of these latter objectives, complementary measures are required at the national, regional and interregional levels in the developing countries themselves. These countries need consciously to pursue the goal of attaining their technological transformation by developing their own technological capacity. They need to adopt policies and establish institutions which aim at achieving such a goal. Such policies and institutions must serve to create a framework or infrastructure for the transformation of indigenous technological capability. The policies in this area must necessarily bear a close relationship to policies relating to the acquisition of technology from abroad. This requires moving from *ad hoc* policies to a comprehensive approach, including the adoption of technology planning as an integral part of development planning. The Conference at Manila will be called upon to decide on the steps that can be taken in this regard and the support which the international community could extend to developing countries in their pursuit of this goal. Effective decisions in this area and a significant programme of work could be a major result of the Conference in the field of technology.

77. A related question pertaining to the problem of technology relates to what has been called the reverse transfer of technology from developing to developed countries—sometimes referred to as the "brain drain"—although such a flow is not confined to the movement of professional skills but also embraces middle-level talents and related skills. The reverse transfer of technology does undoubtedly pose problems for the developing countries affected by it. The over-all questions in this area are complex and embrace a number of elements which are political and social as much as economic. But as long as the problem is of major dimensions and promises to remain so, or even increase in intensity, there is a need for the international community to examine it and to formulate acceptable approaches. The flow of skills and other manpower resources is of course not always of a negative character. In recent times, there has been a particularly marked increase in the flow of human skills between the developing countries themselves. This has enabled some of them to benefit from the availability of expertise and skills in other developing countries. This is an aspect which holds promise for the whole theme of co-operation among the developing countries themselves. Flows of this nature have both their positive and negative aspects, and here again it would be timely for the international community to take stock of the problem and to formulate guiding approaches and policies to deal with it.

2. *Trade between countries having different economic and social systems*

78. Section D above underlines the need of the developing countries to reduce their dependence on a few industrialized countries, mostly the former metropolitan Powers. As mentioned, this dependence is a legacy of history but it persists to this day, despite the evolution that has taken place in the political realm. One means of reducing this dependence is through trade and other links with the socialist countries of Eastern Europe. The potential in this area is great. The socialist countries of Eastern Europe constitute an important element of the global economy taken as a whole. They themselves are in the process of growth and expansion, a process which cannot but offer increasing opportunities for specialization and trade. Since the growth of such trade cannot be left to the operation of market forces, it has to be consciously sought after and fostered. Already in recent years, the rate of growth of trade between the developing countries and the socialist countries of Eastern Europe has been rapid, in fact, more rapid than the rate of growth of other elements of the total trade of developing countries. Nevertheless, in many cases, the base remains small and the potential remains great for the future.

79. The subject of trade between countries having different economic and social systems has been on the agenda of previous sessions of the Conference and remains an important item on the agenda for the Manila Conference. The agenda for Manila refers to all trade flows arising from trade relations between such countries. There is a need to impart further momentum to this issue and to provide new orientations. The socialist countries of Eastern Europe can play a major part in the process of structural change and in a better ordering of international economic relations. They can make an important contribution to the restructuring of international trade as a whole, including trade between them and the developed, as well as the developing, countries. They can also play a significant part in the process of the industrialization of the developing countries through further intensification of their trade and economic co-operation with developing countries and the

[13] Conference resolution 89 (IV), entitled "International code of conduct on transfer of technology", adopted on 30 May 1976.

[14] Conference resolution 88 (IV), entitled "Industrial property", adopted on 30 May 1976.

planned restructuring of industrial development. In recent times, progress has been made in UNCTAD on selected aspects of trade and other economic relations between the socialist countries of Eastern Europe and the developing countries—aspects relating to the diversification of the forms of co-operation (industrial co-operation, including joint ventures and tripartite co-operation, co-operation in planning, co-operation with respect to third markets, etc.), the multilateralization of payments arrangements and the utilization of the potential for trade with developing countries offered by the integration programmes of the socialist countries of Eastern Europe themselves. But the greatest gains in this area are still to be reaped, and a conscious attempt needs to be made by both the socialist countries of Eastern Europe and the developing countries to exploit to the full the potential in this area. This is a subject on which the Manila Conference could take important new decisions.

3. *Shipping*

80. The subject of shipping is another important issue on which major initiatives could be forthcoming at Manila. This subject was not on the agenda for the fourth session of the Conference at Nairobi, largely because the fourth session was convened shortly after the negotiation and adoption of the Convention on a Code of Conduct for Liner Conferences[15] and the basic need was for the ratification of the Convention by Governments, in order to bring it into force. The time has now come, however, at the fifth session of the Conference, to focus attention once more on the question of shipping and to seek international action in support of the objectives in this area.

81. The situation regarding the present status of the Convention on a Code of Conduct for Liner Conferences is one of the subjects on the agenda for the fifth session. Although the Convention has been ratified by a sufficient number of developing countries to meet one of the requirements for bringing it into effect, the other condition, that of ratification by countries accounting for a specified total of tonnage, has yet to be achieved. This is an essential requirement, and it is hoped that the developed countries which voted in favour of the Code at the Conference of Plenipotentiaries will now proceed with the process of ratification. The Convention itself provides for a review after it comes into force, but it would seem that the first step is to make the Code an effective legal instrument.

82. Besides the Code, the main issue in the field of shipping before the Manila Conference relates to the need of developing countries to build up their merchant marines and increase their participation in world shipping. Although, since the first session of the Conference in 1964, this has been a major goal of developing countries, actual performance has fallen far short of the objective, especially in the bulk sectors. The share of developing countries in the dead-weight tonnage of the world merchant fleet is 8.6 per cent, and although some countries have successfully expanded their merchant fleets, the over-all share of the developing countries as a group remains unsatisfactory. There are a number of issues relating to the objective of enhancing the participation of developing countries in international shipping. One of these relates to possible measures to secure bulk cargoes for the fleets of developing countries. Another issue is the role played by the system of open registry and its implications for the development of the national fleets of developing countries. Yet another issue relates to the availability of finance for the development of merchant marines in developing countries, together with problems related to the training of personnel. All these and other elements could form part of a new and concerted international policy in the field of shipping aimed at building up the merchant marines of the developing countries.

4. *The least developed among the developing countries*

83. The special needs of the least developed countries have received recognition and attention for some time now. UNCTAD, from its inception, has been the focal point for dealing with these problems, formulating special measures to solve them. There is already in UNCTAD an Intergovernmental Group on the Least Developed Countries, and UNCTAD recently broke new ground with a special meeting of officials from donor agencies with representatives of the least developed countries.[16] The meeting, which proved to be very useful, will be repeated in 1980.

84. However, concrete measures to assist these countries still remain hopelessly inadequate. Indeed, paradoxically, despite the international endorsement of the need for special attention to be given to the situation of these countries, as part of the global attack on the problem of development, their performance in recent years has been poor, reflecting among other things the inadequacy of international support. In some cases, *per capita* growth rates in the least developed countries have remained negative. On average, their growth performance has lagged far behind that of other countries—a result that does not square with the clearly stated desire of the international community to afford special attention to the problems of these countries.

85. The fifth session of the Conference provides an opportunity to formulate and adopt a major new programme that will be coherent and effective and aimed at problems of the structural transformation of the least developed countries. Such a programme would give credibility to the commitment of the international community to the development issue. It could represent a particularly important result of the Manila Conference. There is a proposal before the Conference for launching such a radically expanded programme, in two phases: viz., in the short term an immediate action programme aimed at providing an upward thrust to the economies of the least developed countries, and in the longer term a substantial new action programme for the 1980s for those countries, with the objective of transforming their economies towards

[15] Convention adopted at Geneva on 6 April 1974. 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).

[16] The Meeting of multilateral and bilateral financial and technical assistance institutions with representatives of the least developed countries was held at Geneva from 31 October to 8 November 1977 (for the report, see *Official Records of the Trade and Development Board, Eighteenth Session, Annexes*, agenda item 6, document TD/B/681).

self-sustained development. This proposal will no doubt command the attention of the Conference.

5. *Land-locked and island developing countries*

86. The problem of geographically disadvantaged countries have also received special attention in UNCTAD for a considerable time now, and UNCTAD has been the focal point for efforts to mitigate the geographical handicaps of the land-locked and island developing countries.

87. The fifth session of the Conference provides an opportunity for the international community to reaffirm its support for specific action related to the particular needs and problems of the land-locked developing countries, as well as an occasion for land-locked developing countries and their transit neighbours to reiterate their commitment to co-operate fully with each other in identifying transit transport problems and in seeking effective co-operative solutions to them, with strong financial and technical assistance support for those measures identified as being necessary.

88. With respect to the island developing countries, further specific action is particularly needed in the case of smaller, more remote, island countries, in order to offset their major handicaps in terms of transport and communications, great distances from market centres, highly limited internal markets, low resource endowment, heavy dependence on a few commodities for their foreign exchange earnings, shortage of administrative personnel, and the heavy financial burdens caused by the location of small numbers of people on islands remote from one another and from main centres.

CHAPTER II

The underlying theme of the Conference

89. In the preceding chapter, some of the principal issues before the Conference were discussed. If the responses to them are adequate, these would involve basic changes in existing mechanisms and relationships, in other words changes in prevailing structures, in each of the areas covered. But the significance of the Manila Conference extends beyond this. Whilst each issue is important in itself, it also forms part of a wider whole. It is essentially the linking of these issues in a wider framework that gives to the Conference its particular significance. The actions of the Conference on each issue could result in structural changes in the relevant areas; but, as mentioned earlier, the actions of the Conference when taken together could contribute towards the restructuring of the global economy. It is for this reason that the theme of structural change can be said to be the binding thread of the agenda of the Conference.

90. Whilst structural change is relevant to each of the issues on the agenda, it is also, significantly, the subject of a distinct agenda item. Item 8, which precedes the other substantive items in the arrangement of the agenda, deals essentially with structural change and with certain issues that are related to it. This is the first time that an international conference has sought to approach the several subjects on its agenda against the wider setting of structural change. It signifies, at a minimum, an awareness on the part of the international community of the importance and relevance of this issue to the realm of relationships between developed and developing countries.

91. There is, of course, no identity of views on the meaning of structural change or even on the need for it. Several interpretations and formulations are possible and it is difficult to do more than discuss some aspects of the issue, particularly those that are relevant to the international dimensions of the development process. For the developing countries, the emphasis on the need for structural change springs largely from two considerations. First, a conviction that, in the present situation, an adequate tempo of development in these countries cannot be attained as a mere by-product of the recovery of the industrialized countries and a return by them to previous patterns of growth—even if such a course were possible. The development process was not assisted at all adequately in previous periods, when the economies of the industrialized countries experienced unprecedented expansion and prosperity. It is unlikely to be so assisted in the future. Secondly, there is the further conviction that the development process cannot be assisted adequately by aid or voluntary resource transfers alone from the developed to the developing countries, even if the volume of such flows were to be vastly increased. The development of the countries of the third world requires changes of a more fundamental character—changes in prevailing mechanisms, systems and relationships—because it is precisely the deficiencies in this realm that help to perpetuate underdevelopment. This is why basic changes or reforms are seen to be needed in the prevailing structure of world trade in commodities, in the conditions that have determined the present share of developing countries in the global distribution of industry, in the prevailing international framework in the field of money and finance, and in existing patterns of trade.

92. The end results of the process of structural change would, in this context, be threefold. The process would lead to changes in the present patterns that govern the distribution of global production and trade, with a transformation in particular of the present share of the developing countries in world industry and in trade in industrial products. It would lead also to better control by the developing countries over their own natural resources and to a strengthening of their participation in decision-making processes in the realm of international economic affairs—involving changes in their present relationships with transnational corporations and in their voice in the international financial institutions. Finally, the process of structural change would both require, and result in, a continued evolution of the rules and principles that govern international economic relationships, so that they would always remain relevant to the demands of a changing world.

93. There are also a number of aspects to the theme of structural change viewed from the vantage point of the developed countries. One of these relates to the need for basic changes in prevailing mechanisms, practices, policies and institutions within these countries which would help them to overcome problems of unemployment and recession and to facilitate a dynamic process of technological change and adaptation. The debate on structural change in this context can embrace such issues as adjustment assistance, energy conservation, environmental protection, patterns of consumption and so on. The present crisis facing

the developed countries is not simply of a cyclical character. Some of the problems they face are so deep-seated that their solution appears to require changes of a structural character.

94. More directly related to the international dimension of the theme of structural change, however, are two other aspects. The first of these concerns the interest which the developed countries themselves have in basic reforms in existing mechanisms and systems in the international arena. The responses evoked on each of the major issues facing the Manila Conference could provide evidence of that interest. The developed countries, no less than the developing, could benefit from the better functioning of commodity markets and the reduction of extreme fluctuations. They have a basic long-term interest in the avoidance of a restrictive trading system. No less important, they have a vital stake in a soundly structured monetary and financial system which would provide a protection against the disruptions and dislocations of recent times.

95. The other aspect concerns the benefits that could accrue to the developed countries as a result of structural changes that promote development in the third world. The developing countries are coming to occupy a place of increasing importance in the economies of the developed countries. There is already a wide awareness of their importance as sources of supply of essential materials. But what is also significant, if less widely recognized, is their importance as markets for the products of the developed countries. Around 40 per cent of United States exports of manufactured goods go to developing countries and a similar proportion applies with respect to Japan and the European Economic Community taken as a whole. For particular sectors of industrial production in the developed countries, the degree of dependence is much greater. The significance of this is that policies and measures that promote development in the third world could stimulate recovery and expansion in the developed countries themselves. In the context of the idle capacity which at present exists in the capital goods sector of the developed countries, the impact of additional demand from the developing countries could be considerable.

96. Too often, development aid and other measures that respond to developing country needs are resisted on the grounds that they impose additional burdens on the developed countries, which already find themselves in a difficult situation. But the argument is faulty. Measures to stimulate expansion in developing countries should, on the contrary, form an important part of the policies of developed countries aimed at recovery and balance in their own economies. They should also form an integral and vital part of international policies aimed at improving the global economy not only in the long term but also in the more immediate context.

97. The need for structural change has recently been recognized and underlined in pronouncements by gatherings of the leaders of industrialized countries at the highest levels. There is some debate in these countries whether government policy should facilitate such changes or actively promote them by conscious measures directed towards that end. Whatever the relative merits of the different sides in the debate, it would seem that in the absence of conscious policies to bring about structural changes, particularly in the area of industry, there is a danger that prevailing and inappropriate patterns will come to be reinforced by contrary policies of a protectionist nature. The danger, in other words, is that if structural change is not consciously fostered, it is likely to be consciously impeded.

98. The themes pertaining to structural change have been discussed here in terms largely of the developing countries on the one hand and the developed market-economy countries on the other. The concept, however, is vitally significant for the socialist countries of Eastern Europe as well. Many of the international mechanisms which impede trade and expansion in the developing countries—limitations to market access, finance, etc.—also impose limitations on the opportunities available to the socialist countries of Eastern Europe. But there is also another dimension of particular relevance in these countries. The restructuring of international economic relations must provide for the fullest development of the potential for trade and other exchanges made possible by the economic growth of the socialist countries of Eastern Europe. This could benefit all groups of countries, but it is particularly relevant to trade between these countries and the developing countries.

99. Agenda item 8 before the Conference draws attention also to the interdependence of issues in the field of money, trade and development. Such interdependence is of course of relevance to the pursuit of long-term structural change. But, more immediately, it is of vital importance to the formulation of policies, whether national or global, to deal with the pressing problems that afflict the international economy. The fact of interdependence is of course well recognized. What is less easy is to ensure that sufficient account is taken of it in the formulation of policy. To some extent, the developed market-economy countries already have mechanisms—the summit meetings which consider economic issues and other arrangements—that could partially at least respond to this need. What is sorely lacking at present is a particular mechanism which could take into account the interests and concerns of the developing countries and of the socialist countries of Eastern Europe in the consideration of interdependence and the formulation of policies. Whilst the theme of interdependence is central to the very mandate of UNCTAD, there has been no adequate arrangement so far to deal with this. This is one of the important issues on which the Manila Conference needs to act. By establishing an appropriate mechanism in UNCTAD, the Conference could make a major and urgent contribution not only on the institutional scale but also to the evolution of international policy.

100. Item 8 of the agenda also makes particular reference to the need for further evolution in the rules and principles that have hitherto governed international economic relations. This is a subject of the most fundamental importance. The basic framework of rules and principles now in existence was essentially formulated in the period immediately following the end of the Second World War and embodied in such instruments as the General Agreement on Tariffs and Trade, which was a by-product of the negotiations at the Havana Conference and the agreement on an international monetary system negotiated at Bretton Woods. At that time, neither the developing countries nor the socialist countries of Eastern Europe brought to bear a strong presence in international economic negotiations and it is not surprising that their particular needs were barely, if at all, taken into the reckoning. Whilst these needs may, to

some extent, have been accommodated in actions taken subsequently, such actions have largely taken the form of exceptions, waivers or qualifications to the prevailing body of rules rather than a recasting of this body of rules itself.

101. It is relevant to ask whether the time has not now arrived to examine the need for a recasting of earlier doctrine and the body of rules that reflect it. Despite the *ad hoc* measures to accommodate developing countries, these countries do not find the existing framework adequately responsive to their requirements. This is implicit in the expression they have given for the need for a new international economic order. What is more, the existing framework itself has been so severely undermined that it has lost much of its coherence as a system and is proving inadequate to meet even the requirements of the industrialized countries. Whilst some of the basic features of the international monetary system were destroyed as far back as 1971, only interim arrangements and *ad hoc* improvisations have been put in their place. No less significant are the increasingly severe strains placed upon the international trading system by the emergence of tendencies that contradict the fundamental principles of the system as embodied in the General Agreement on Tariffs and Trade itself.

102. There are already in existence components that should be taken into account and incorporated in any recasting of the body of rules and principles. Most of these embody international agreements or international policy instruments that have emerged over the years since the original body of rules and principles was adopted. Yet they have arisen separately, sometimes as responses to particular needs, and remain outside the main body of doctrine itself. They include the concepts inherent in the Declaration on the Establishment of a New International Economic Order,[17] the principles reflected in the Charter of Economic Rights and Duties of States,[18] the commitment to the regulation of international trade in commodities, as reflected in the Integrated Programme for Commodities, the principles recognized in the GSP, the principles reflected in the several international codes of conduct that have been negotiated or are in process of being negotiated in respect of shipping, the transfer of technology, restrictive business practices and transnational corporations. There are also other developments deeply relevant to the continuing validity and effectiveness of the old system but which were not adequately foreseen in the earlier period. There has been the major thrust towards integration on the part of the industrialized countries of Europe, with principles and modalities relevant to this process. There is also the emerging trend towards co-operation, even integration, amongst developing countries at various levels. During the post-war period, the socialist countries of Eastern Europe too have participated significantly in world trade using modalities and mechanisms appropriate to their economic system.

103. As mentioned, all these developments, though forming part of internationally accepted principles or practices, remain for the most part outside the basic framework of rules and principles drawn up at an earlier period. There is a growing need therefore for a recasting of the rules and principles, so as to make them more relevant to the realities of our time. Such a revised framework would be responsive to the requirements of all groups of countries, the developing countries and the socialist countries of Eastern Europe, as much as to those of the developed market-economy countries.

104. It might be suggested that the process of recasting the rules and principles should be a major undertaking for a new international gathering some time in the 1980s, a gathering analogous to the earlier Havana Conference and working over a period of time. The end result of such an effort might be a new international economic convention. The Conference at Manila, whilst it cannot, of course, assume the role of such a gathering, could give attention to the relevant issues and consider how the process leading up to such a result might best be initiated.

105. The agenda for the fifth session also refers to the contribution that UNCTAD must make to the international development strategy for the third United Nations development decade and to the special session of the General Assembly which is to address itself to this subject in 1980. The Conference could do so in two ways. First, by the very decisions of the Conference itself on each of the agenda items. These decisions should provide the orientation and direction of international policy for the period ahead in the relevant areas. They would therefore be directly relevant to the content of an international strategy for development. But in addition, the Conference might also take specific steps to establish appropriate arrangements to prepare the further contributions which UNCTAD could make to the formulation of the strategy. This parallels the experience in connexion with the Strategy for the Second United Nations Development Decade, when the Trade and Development Board did make a similar contribution which proved to be a major influence on the ultimate formulation of the strategy itself by the General Assembly. A process on similar lines could be set in motion by the Conference at Manila.

CHAPTER III

The negotiating process and the role of UNCTAD

106. One of the most important issues before the Conference—and the subject of a separate item of the agenda—is the role of UNCTAD itself. The issue is not one of a routine review of the progress of UNCTAD as an organization. It is directly related to the process of negotiations in the field of international economic co-operation.

107. It is important to recognize that issues in the field of international economic co-operation, particularly relations between developed and developing countries, have entered into a new phase. There is a growing recognition of the importance of this in the wider political context of international relations. The "North-South" issue is now a regular item on the agenda of joint meetings of the developed market-economy countries at the highest levels. But, no less significant, there has also been an evolution in the way in which these issues are treated by the international community as a whole. Such treatment has progressed from the more general to the more specific, from debate and discussion to concrete negotiations, from

[17] General Assembly resolution 3201 (S-VI) of 1 May 1974.

[18] General Assembly resolution 3281 of 12 December 1974.

the formulation of goals and objectives through broad resolutions to the adoption of more complex agreements and instruments, some of them of a legally binding character. These are welcome developments, since they place emphasis on specific results and on their implementation.

108. These changes have had a marked impact on UNCTAD. From its inception, UNCTAD has been at the very centre of the international debate on development. It has been the forum where the developing countries have commanded attention to their needs. Deliberations in UNCTAD have influenced not only its own decisions but also responses from other bodies and from Governments themselves. But more recently UNCTAD has responded to the need for bringing about concrete agreements through negotiation. The Nairobi Conference itself launched a negotiating process whose decisions had no earlier parallel in UNCTAD, a process devoted to changing prevailing relationships and mechanisms in a number of critical areas. This activity has vastly influenced the character of UNCTAD as an organization and made heavy and exacting demands on both the Governments of its member States and on its secretariat.

109. In this changed setting, it is now necessary to ask how UNCTAD itself as an organization can evolve and adapt itself to respond to the needs of the international community. The original mandate of UNCTAD as embodied in General Assembly resolution 1995 (XIX) is broad and wide-ranging. But although it provides UNCTAD with both deliberative and negotiating functions, the emphasis was until recent times more on the former than on the latter. This was reflected in the UNCTAD organizational structure and in the nature of the intergovernmental meetings themselves. The rules and procedures governing the way in which UNCTAD is required to operate were not specially designed or adapted to the needs of a forum that is playing a critical part in the negotiation process—a process that covers a range of issues of vital significance to international economic relations, particularly relations between developed and developing countries. UNCTAD is not an autonomous agency in the United Nations system, and its secretariat is a Department of the United Nations Secretariat; this is reflected in the procedures and practices that apply to it.

110. The need, however, in the present context is not to transform UNCTAD into an autonomous specialized agency. On the contrary, it is more important now than ever before that UNCTAD remains an instrument of the General Assembly. UNCTAD is, in fact, the principal instrument of the General Assembly for negotiation in the field of trade, development and international economic co-operation for development. What is important is that this role be recognized and that UNCTAD be equipped and assisted in fulfilling it as effectively as possible.

111. There are a number of actions that could flow from such a step. In the first place, it would enable UNCTAD to assume a style of operations relevant to the needs of a vital negotiating forum. The requirements for servicing debates are not the same as those for servicing negotiations. A successful negotiation requires more than the convening of meetings and the provision of background documents. It requires, in addition, contacts with Governments, as well as pre-conference consultations and preparations which in turn demand flexibility in operational methods. This is a requirement that cannot be satisfied by standardized and uniform procedures applicable to all types of activities, some of them totally different from those of UNCTAD. In the second place, it would result in an approach to resource allocation that takes account of the priority which the international community attaches to the negotiating process in the field of international co-operation for development. An inadequately equipped negotiating body can prove costly to member States participating in meetings which may be inconclusive simply because adequate preparations cannot be made. On the other hand, the provision of the resource needs of a body to service the negotiating process effectively can result in economies to these States. Thirdly, there can also be a better approach to the organizational structure of UNCTAD itself—in terms of both its intergovernmental machinery and its secretariat. There is scope for adaptation in this area but such adaptation can be effective only in the context of a clear awareness of the role of UNCTAD. Actions pertaining to that role must be seen as a necessary contribution towards completing the restructuring of the United Nations system in the economic and social sectors.

112. The institutional aspect of the negotiating process must, indeed, be regarded as an integral and essential part of the very strategy for making progress in the restructuring of international economic relations in the field of development.

AGENDA ITEM 8*

DOCUMENT TD/224 AND ADD.1

Evaluation of the world trade and economic situation and consideration of issues, policies and appropriate measures to facilitate structural changes in the international economy

Report by the UNCTAD secretariat

*DOCUMENT TD/224***

[*Original: English*]
[*28 March 1979*]

CONTENTS

CHAPTER I

Evaluation of the world trade and economic situation

1. The failure of the existing international economic system to provide adequate support for the development efforts of developing countries has been evident for some time. Even before the onset of the worst of the post-war recessions in the industrial countries in 1974, it had become apparent that the International Development Strategy for the Second United Nations Development Decade adopted by the General Assembly in 1970[1] was unlikely to prove effective. During the first three years of the decade, economic growth in the third world was concentrated in the medium- and high-income developing countries; the low-income countries, containing over one half of the total third-world population (excluding China), achieved an annual growth rate of little more than 2 per cent, a rate no higher than that of their population growth. This performance, during a period of rapid economic expansion in the industrial countries, represented in fact a substantial deterioration compared with the already unsatisfactory performance of these poor countries in the first United Nations Development Decade (see annex). As a result, the ineffectiveness of the Strategy was giving rise to widespread concern, particularly among the developing countries.

2. In the succeeding two years of severe recession in the developed market-economy countries (1974 and 1975), economic growth in both the medium- and high-income groups of developing countries (apart from the major

* For the agenda, see vol. I, part three, para. 6.

** Incorporating document TD/224/Corr.1.

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

oil-exporters) slowed down sharply, while output per head in the low-income countries (including the least developed countries) showed only a marginal improvement. The emergence of the economic crisis, which threatened to cause serious disruption to the development of the third world, brought increasing recognition of the need for radical changes in the institutional framework of international economic relations, and it was in this climate that the General Assembly adopted in 1974 the Declaration and the Programme of Action on the Establishment of a New International Economic Order,[2] which was a formal recognition on the part of the international community of the need for such changes.

3. Since then, however, little progress has been made in implementation of the structural changes called for in the Programme of Action. By the time of the fourth session of the United Nations Conference on Trade and Development, held in Nairobi in May 1976, the developed market-economy countries had begun to recover, albeit slowly and haltingly, from their deep recession, and some of their governments doubtless believed that a resumption of "normal" economic growth would solve the more pressing economic problems of the developing countries and lessen the urgency of fundamental reform of the international economic order.

4. However, the hoped-for resumption of "normal" growth has not occurred, and the general disarray of the world economy has persisted, confirming the urgent need for structural change, in the interests not only of the developing countries but also of the developed countries. Although in 1976 the aggregate GNP of the OECD countries rose by 5 per cent over the preceding year, when, for the first time since the 1930s, it had shown an absolute decline, economic growth slowed down again in 1977 and in both that year and in 1978 was no more than some 3 to 4 per cent per annum. The most recent OECD forecast is for a further decline in the over-all growth rate of member countries, to 3 per cent in 1979.[3]

5. At the same time, unemployment in the OECD countries has remained persistently high, total unemployment since 1975 being not less than 5 to 6 per cent of the labour force, representing in 1978 a total of some 17 to 18 million people out of work. Paradoxically, this relative stagnation has been accompanied by an over-all rate of inflation which, though it has fallen substantially from the peak rate reached in 1974, is still well above earlier post-war levels.

6. As a result of these developments, there is now widespread awareness that the existing international economic system, in addition to its inequitable functioning as regards the division of the benefits of economic exchanges between developed and developing countries, is functioning in an inefficient manner for the developed countries also. A major manifestation of this inefficiency has arisen in the emergence of unprecedented and persistent external payments imbalances among the industrial countries themselves. These imbalances to a large extent reflect failure on the part of the larger industrial economies to adjust to major changes in their relative competitiveness. Though substantial exchange-rate movements have occurred, they have not brought about the necessary adjustments, partly because some Governments have been unwilling to allow exchange rates to move to the full extent necessary for this purpose, in view of the unacceptable effects on employment or on inflation which such a policy would entail. At the same time, the persistence of payments imbalances, and of inflation, has inhibited Governments from undertaking measures to stimulate economic growth.

7. Associated with this situation of external imbalance, stagnation and inflation in the principal developed market-economy countries has been a high degree of exchange-rate instability. To some extent, fluctuations in exchange rates have reflected changes in the pattern of relative inflation rates in the major trading countries. Mainly, however, they have been the result of speculative movements in the huge privately-held liquid balances which at present overhang the international money markets. These balances consist largely of deposits of transnational corporations and other private firms in the largely uncontrolled Eurocurrency market, and their growth has been fed by the very large United States payments deficit which has accumulated since 1976. Exchange-rate fluctuations have complicated the international adjustment process and have created disorderly conditions in international trade, thereby bringing increasing awareness of the need to establish a stable system of exchange rates. The range of measures recently announced by the United States Government to strengthen the dollar, as well as the decision by the European Economic Community to establish a European Monetary System, are evidence of this awareness.

8. The weakness of the recovery from the 1974-1975 recession, combined with the emergence of substantial unemployment in a number of industrial sectors, has led many developed market-economy countries to extend existing protectionist measures, or to introduce new measures, against imports from low-cost sources. Developing countries have been particularly hard hit and, in effect, discriminated against by these protectionist measures.[4]

9. The volume of world trade has also been adversely affected, both by the slow pace of recovery and by the increase in barriers to trade. While over the decade up to 1973, world trade grew by nearly 9 per cent a year in volume terms, over the period from 1973 to 1978 the annual rate of growth fell to 4 to 4.5 per cent, or only one half of the average for the earlier period.

10. Associated with the slowdown in world trade have been marked changes in price relationships, more particularly a serious deterioration of the terms of trade of developing countries, both oil exporters and others. The deterioration amounted to almost 15 per cent over the period 1974-1978, representing in 1978 a foreign exchange loss for all developing countries of over $30 billion. This sharp deterioration reflects, firstly, the continuing inflation in the developed market-economy countries, which has resulted in corresponding increases in the prices of their manufactured exports and, secondly, the depressing effect on

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

[3] See OECD, *Economic Outlook* (Paris), No. 24 (December 1978).

[4] For further discussion of the recent extension of protectionist measures, see chap. III below. A more detailed review of this subject is contained in document TD/226, reproduced in the present volume.

primary commodity prices of stagnating demand in the developed countries for industrial raw materials.

11. The net effect of the continuing economic crisis has been to create major readjustments in the world economy and in the relative economic strengths of the main trading countries and groups.

12. The socialist countries of Eastern Europe, whose mutual economic relationships constitute the other main component of the existing international economic system, have enjoyed relatively greater economic stability in recent years than have the developed market-economy countries. Industrial production in the socialist countries of Eastern Europe increased on average by over 8 per cent a year in 1974 and 1975, and over 6 per cent a year in 1976 and 1977, the decline reflecting the effects of labour shortage and of a higher average capital-intensity of production. Large fluctuations continued to occur in agricultural output owing mainly to variations in weather conditions.

13. Trade between the socialist countries of Eastern Europe and the developing countries still represents relatively small proportions of the total foreign trade of both groups of countries. This flow of trade has, however, been expanding more rapidly in recent years than either East-West trade (i.e. trade between socialist countries of Eastern Europe and developed market-economy countries) or the intra-trade of the CMEA area. Because of its essentially long-term character, this trade imparts an element of stability to the economies of the participating developing countries, which at present consist of a relatively small group of 20 to 25 countries.

14. As far as the developing countries as a whole are concerned, it would appear that they have had to bear a disproportionate part of the global burden of readjustment to the economic crisis. As a result of the deterioration in their terms of trade, already mentioned, and the slow-down in the demand for their industrial raw material exports, many developing countries have had to meet unprecedentedly high external payments deficits, with the consequent necessity for either cutting down their development programmes or raising additional foreign loans on the private capital markets. The total outstanding disbursed debt of the developing countries, which had amounted to about $114 billion in 1973, rose to $244 billion by 1977[5] and can be estimated to have risen further in 1978, to almost $300 billion, with an increasing number of countries having to meet debt-service charges exceeding 25 per cent of their export earnings.

15. As a result of these and related adverse developments, real income per head in the low-income developing countries—where an acceleration of growth is most needed—has continued to stagnate in the period since 1973, while for the middle-income countries, the rise in real income per head has fallen far short of the target growth rate in the International Development Strategy of 3.5 per cent per annum. Moreover, the immediate prospects for economic recovery by this group of developing countries have suffered a further set-back as a result of intensified protectionist measures adopted by a number of developed market-economy countries, which will seriously restrict the growth in their exports of manufactured goods.

16. It now seems evident that economic development in the third world cannot be accelerated, or even maintained at its current inadequate rate, without a fundamental restructuring of the existing international economic order designed to make it far more supportive of the development process. However, in the preoccupation of the developed market-economy countries with the continuing crisis in their own economies, there has been little evidence of their acceptance of the need for restructuring their economic relations with the developing countries. The strong emphasis being given by developed market-economy countries to measures of "economic recovery" has in fact certain negative implications for the ongoing negotiations on a new international economic order.

17. First, there is an implicit assumption in this emphasis that the key to the solution of current international economic problems lies in the economic recovery of the industrialized countries and the consequent expansion of the world economy and of world trade. Such an approach essentially argues for a return to the processes which were at work in the world economy before 1974, i.e. for a continuation of the existing system, restored to its pre-recession trends, with some marginal adjustments. In this concept, the third world's development would be dependent on the transmission—or "trickle down"—of growth from the developed countries via the expansion of developed country markets, and increased demand for raw materials and other products from the third world. Second, emphasis on economic recovery as the priority for action also implies that the current crisis is essentially cyclical in character and that economic recovery in the developed market-economy countries can be achieved independently of the structural reform of the international system. From this standpoint, therefore, the recovery of the industrialized countries becomes almost a prerequisite for any negotiation on the restructuring of the international system itself.

18. Such a diagnosis, however, fails to recognize the existence of any link between the current economic difficulties of the industrial countries and the underlying structural disequilibrium in the present international division of labour and in the international trading and financial system. In other words it ignores the contribution that a restructuring of international economic relations which resulted in a substantial strengthening of the economies of the developing countries, and in a significant increase in their purchasing power, would make to the solution of the current economic problems of the developed countries, particularly by the impetus it would give to increasing world demand for the lagging output of the capital goods industries of the developed countries.

19. Recognition of such a link between the problems of the developed and the developing countries would imply that emphasis should shift to restructuring as the primary means to achieve stable and sustained economic recovery. In place of the indirect approach to third world development through measures designed to restore fast growth to the developed market economies, the emphasis would have to be on measures designed to create and promote the growth of effective demand in the backward and poor parts of the world which would, in turn, indirectly contribute to the recovery of the industrialized economies. A wider

[5] See OECD, *Development Co-operation, 1978 Review: Efforts and policies of the members of the Development Assistance Committee,* (Paris, 1978).

acceptance of this interrelationship by the developed countries could inject a new dynamism into the international negotiating process.

CHAPTER II

The need for structural changes in the international economy

A. The meaning of structural change in the international context

20. The concept of structural change, in the context of reshaping the international economic system so as greatly to accelerate the development process, covers several distinct, though related, elements.

21. First, structural change relates to shifts in the patterns of production, consumption and trade in the world economy, and particularly to the relative rates and patterns of growth in developing, as compared with developed, countries. The industrialization of developing countries, for example, will clearly involve not only large changes in their own production and consumption patterns, but also complementary changes in the pattern of their industrial specialization and trade, both among themselves and with the developed countries. The acceleration of the industrialization process in the developing countries will also have profound implications for their domestic socio-economic structures, which in many cases will need to be adapted or restructured to ensure the full and effective mobilization of their own resources for development.

22. A second element, related more specifically to the international context, concerns the pattern of effective control over the use of the world's resources and over the international decision-making process. In this sense, structural change implies that developing countries, to achieve a style of development related specifically to their own needs and based on their own cultural backgrounds, must be in a position to exercise full and effective control over the use of their domestic resources. This, in turn, implies that developing countries will need to enhance their collective bargaining power in their economic relations with the governments and transnational corporations of developed countries. A significant shift in the balance of control over the working of the international economic system in favour of developing countries is thus an essential part of the concept of international structural change.

23. Thirdly, in order to promote and support the required changes in global production and trade patterns, to allow developing countries to assume effective control over the use of their own resources and to participate fully in international decision-making, reform of the institutional framework of international economic relations will be necessary. This institutional framework consists of the rules and principles, as agreed by Governments, which govern the international flows of trade, technology, money and finance. This body of rules and principles—which include, as major constituents, the trade rules embodied in the General Agreement on Tariffs and Trade (GATT) and the operational rules of the International Monetary Fund (IMF)—was evolved in a past historical period as a result of negotiations among the developed countries. Generally speaking, the existing rules and principles governing international economic relations, though they have been variously adapted to meet changing conditions in the world economy, have not yet been restructured in order to provide a firm support for the development of the third world.

24. The concept of structural change, in the context of accelerating the development process, thus implies a fundamental modification of the way in which the existing international economic system functions. In particular, it implies a shift in the patterns of global production, consumption and trade resulting from an acceleration in the industrialization of developing countries, a corresponding increase in the effective control by these countries over the use of their own resources and in international decision-making, and a supporting restructuring of the institutional framework which governs the external economic relations of the developing countries. While each of these three closely connected aspects needs to be borne in mind when considering the need for structural change in particular sectors of the world economy, the need for restructuring the institutional framework is explicitly brought out, where appropriate, since this is the aspect most amenable to international consultations and negotiations.

B. Restructuring the international division of labour

25. Since the sixth special session of the General Assembly in 1974, UNCTAD has focused its efforts on intensive consideration of specific issues of importance in the movement towards a new international economic order, and in the evolution of more effective international co-operation for the promotion of the development process. The main issues involved—which together constitute the essential elements of the North-South dialogue—are all related to one aspect or another of structural change in the economic relations of developed with developing countries. Some of these issues have reached the stage of concrete negotiation, while others are in various stages of preparatory discussions or consultations. The fifth session of the Conference provides an opportune occasion for reviewing progress on these issues, under the relevant agenda headings, and for giving impetus to the search for agreed solutions.

26. One purpose of the present report is to assist the Conference in this task by clarifying the relevance of these various issues to the underlying theme of structural change and, more specifically, to the restructuring that is required as regards the division of labour between developed and developing countries.

1. *Strengthening the commodity sector*

27. A major impediment to the rapid economic development of the majority of third-world countries is their continuing excessive dependence on a weak commodity sector oriented to serve the commodity requirements of developed market-economy countries. This situation, which is essentially a legacy of the colonial past, has been a major factor preventing the emergence of an agricultural surplus of adequate dimensions for financing the industrialization process. Moreover, the instability of most primary commodity markets, coupled with unfavourable price trends for many of the important commodities of export interest to

developing countries, has had adverse effects on the real incomes of the rural population of many of these countries.

28. Thus, measures designed to strengthen the commodity sector of the economies of developing countries have the dual purpose of benefiting directly the majority of the population of these countries and of providing the main part of the additional foreign exchange resources required to support their industrialization and development.

29. The decision taken at the fourth session of UNCTAD to set in motion a series of negotiations on an Integrated Programme for Commodities[6] was an important step towards dealing with the commodity problem in a comprehensive manner in the context of the development needs of the third world. The successful achievement of the Integrated Programme, including its central feature, the common fund, will in effect create a new institutional structure for regulating the world markets for major third-world primary commodity exports.

30. The substantial reduction in commodity market instability which should follow would benefit developed and developing countries alike, by encouraging investment in new productive capacity and by reducing inflationary pressures in developed countries which tend to be accentuated as a result of sharp and unexpected increases in commodity prices. The operation of the common fund "second window" should also play a significant role in strengthening the commodity sector in developing countries. The early establishment of the common fund and more rapid progress in the negotiations on individual commodities would thus lay a sound basis for a restructured world commodity economy.

31. While the negotiations on individual commodities have been concerned essentially with mechanisms for price stabilization, it should not be forgotten that the original concept of the Integrated Programme covered other aspects of the commodity problem also, in particular, measures to improve and enlarge compensatory financing facilities for the stabilization of export earnings of developing countries, to expand the processing of primary products in developing countries, and to enhance the participation of these countries in the marketing and distribution of their commodity exports.

32. The case for new or additional international financial arrangements designed to stabilize the commodity export earnings of individual developing countries rests essentially on two grounds. First, international commodity agreements, though they may effectively stabilize prices within agreed ranges, cannot be expected also to stabilize the corresponding export earnings of individual countries, since the latter depend on variations in exportable production as well as in prices. Secondly, there will remain a range of commodities which are not suitable for price stabilization measures such as the use of buffer stocks, and for which compensatory support for unexpected shortfalls in export earnings would be an important complementary mechanism to the system of commodity agreements envisaged under the Integrated Programme.

33. The expansion of processing industries involves a number of issues, including improved access to markets in developed countries, the acquisition of technology, the role of transnational corporations and the potential for greater trade among developing countries themselves. Increased processing by developing countries of their indigenous primary commodities would have wide benefits, including increased value added in their commodity export trade, and an additional important element of industrialization.

34. The enhancement of the participation of developing countries in marketing and distribution will call for a wide range of measures at both national and international levels, particularly since for many primary commodities the marketing and distribution network is largely controlled by transnational corporations which, by virtue of this control, are in a position to capture a disproportionate share of the benefits of the trade of developing countries.

35. Significant progress on these various issues—commodity export earnings stabilization for individual developing countries, processing and marketing and distribution—would involve new patterns of trade and new patterns of control which would constitute important elements of a restructured world commodity economy. The fifth session of the Conference would provide a suitable opportunity for reaching agreement on the lines of future work on these issues.

2. *Industrialization and trade in manufactures*

36. Rapid industrialization is a central factor in the development and transformation of the economies of developing countries. Moreover, only through industrialization can the existing "vertical" division of labour in the international economy—whereby most developing countries exchange primary commodity exports to developed countries for a reverse flow of manufactured goods—be gradually phased out. On the basis of widespread industrial development in the third world, a new international division of labour can evolve, one based to an increasing extent on a mutual exchange of specialized industrial products.

37. The need for the rapid industrialization of developing countries was strongly affirmed at the Second General Conference of UNIDO at Lima in 1975. That Conference adopted a bold and ambitious target of 25 per cent for the share of developing countries in world industrial production by the end of the present century,[7] as compared with a share of only 8 or 9 per cent today. To achieve a target of such magnitude will require far-reaching changes in the structure of production, consumption and trade in the world economy.

38. It is becoming increasingly recognized that, to be viable, rapid industrial growth in developing countries will need to be directed, as a major objective, to meeting the needs of the majority of the population, as well as to be the focal element of an autonomous self-reliant development process. However, viable industrial growth, even for large developing countries, cannot be expected to be directed to domestic markets alone. The expanding industrial capacity of third-world countries implied in the Lima target will need to be supported by expanding external outlets as well.

39. This need for external outlets raises major questions about the capacity of the existing international economic

[6] See Conference resolution 93 (IV) of 30 May 1976.

[7] See "Lima Declaration and Plan of Action on Industrial Development and Co-operation" (ID/CONF.3/31, chap. IV), para. 28.

system to accommodate the required structural changes in the pattern of industrial specialization, and about the adequacy of existing policies and institutional arrangements to facilitate such changes. In the first place, a new international division of labour will necessitate not only the expansion of industrial export capacity in the developing countries but also complementary structural changes in the productive sectors of the developed market-economy countries, which constitute at present by far the largest export market for developing countries.

40. Second, the trade in manufactured goods among developing countries can be expanded at a rapid pace, provided the economic infrastructure for such trade—transport, credit facilities, insurance, and financial flows for investment—is adequately enlarged, where necessary, by the creation of new institutional arrangements. A third avenue for trade expansion is that between developing countries and the socialist countries of Eastern Europe, by making wider use of existing forms of co-operation, such as long-term bilateral agreements, as well as of the forms of trade and economic co-operation in production and technology, both bilateral and multilateral, which have been emerging in recent years and which can usefully be built upon and enlarged.

The retardation of structural change

41. Up to the early 1970s, the post-war period had been noteworthy for the unprecedently rapid expansion in the trade among developed market-economy countries in industrial products, reflecting generally rapid rates of economic growth in these countries, accompanied by sharp shifts in their relative competitive positions. Substantial structural changes in the industrial sector have also occurred as an integral part of the process of growth. One aspect of such structural change has been that the trade among these countries in industrial products has come to be dominated by intrabranch specialization, that is, by trade in both directions consisting of similar or related products.

42. By contrast, the trade in industrial goods between developed and developing countries has remained largely of an interbranch character, exports from developing countries consisting mainly of labour-intensive manufactures (textiles, clothing, footwear, etc.), whereas their imports from developed countries are mainly capital equipment and intermediate products. In recent years, a number of developing countries have become low-cost producers of a range of non-traditional manufactures including, in particular, steel, ships and precision engineering and electronic products, in the latter case the greater part of production being controlled by transnational corporations.

43. The incentive to structural change in the industrial sector of the economies of the developed countries arising from the availability of relatively low-cost labour-intensive manufactures has, however, been blunted over the past decade by various industrial and commercial policy measures generally designed to protect local industries from undue competition from low-cost imports, to minimize local unemployment, and to assist such industries to rationalize their production and thereby improve their productivity so as better to meet competition from imports from developing countries and other low-cost sources.

44. The growth of exports of low-cost non-traditional manufactured products from certain developing countries in recent years has coincided with recession, large-scale unemployment and external payments deficits in many developed market-economy countries. As part of their remedial policies, these countries have frequently resorted to protective devices aimed particularly at constraining not only the newer kinds of manufactured exports of developing countries but also their traditional labour-intensive manufactures. These protectionist measures are directed mainly at specific industrial products in which developing countries have enlarged their supply capacity for export and have become competitive on the world market. Thus, these devices act, in effect, in a discriminatory manner against the manufactured exports of developing countries. Moreover, by and large, they do not fall within the scope of the existing GATT trading rules, and therefore are not subject to international surveillance or regulation.[8]

45. A recent GATT estimate is that over the three years 1975-1977, some $30 billion to $50 billion of annual trade flows have become subject to such forms of protection.[9] Though this estimate relates in part to restraints on exports from Japan, it is apparent that a substantial proportion of the manufactured exports of developing countries (amounting to $40 billion in 1977) is now subject to these trade barriers. It is, indeed, ironic that while efforts are being made to bring the current multilateral trade negotiations to a successful conclusion, the trend towards trade liberalization has, in fact, been sharply reversed by the new protectionism. The result, on present indications, will most probably be a net deterioration in market access for the manufactured exports of developing countries.

46. Moreover, the new wave of protectionism is placing increased strain on the working of the international adjustment system and threatening disturbance in international economic relations. If the problem were only a short-term one, arising from the difficulties of recession, it could be expected to recede in the course of a possible recovery. However, it would appear that it is a symptom of an underlying maladjustment in the world economy, and therefore that the problem has a more enduring character. In large part, the maladjustment reflects the inability of developed countries to restructure their industrial sectors to accommodate the substantial shifts taking place in the relative competitive position of the developing countries. The longer-term effect of the new protectionism is to retard the process of structural change in the industrial sector of the economies of developed countries, at a time when what is required is an acceleration of that process.

47. Structural change in developed countries is necessary not only to support the industrialization process in the third world, but also because industrial growth in developing countries will feed back to developed countries in the form of greater demand for capital-intensive and high-technology goods. Developing countries now take one quarter of all manufactured exports from the developed market-economy countries as a whole, while for some of the latter, such as Japan and the United States of America, the proportion is much higher, at about two fifths. Strong and expanding demand by developing countries for the

[8] For a detailed review of recent protectionist measures, see document TD/226, reproduced in the present volume.

[9] *Ibid.*, para. 7.

industrial products of developed countries could thus be a major factor in future world economic expansion.

48. The fifth session of the Conference provides an important opportunity for governments to consider the new protectionism in the wider context of the development problem. In the short run, the need is to contain the adverse impact of protectionist measures within an agreed framework of principles and procedures; for the longer run, the essential requirement is to evolve a set of measures to promote the required changes in the international division of labour.

3. *Technology for development*

49. The attainment of the industrialization and development objectives of developing countries has major implications for national and international technology policies. It is now widely recognized that the technological dependence of developing countries on the transnational corporations of developed market-economy countries carries with it a number of serious constraints on the development effort, and that there is an urgent need for reducing this dependence and developing an adequate technological capability in third-world countries themselves.

50. Up to now, the concerns of UNCTAD in the area of technology have related primarily to the first aspect, namely, the reduction of technological dependence. In this connexion, the contribution of UNCTAD to the revision of the industrial property system (the legal arrangements and practices relating to patents and trade marks), the negotiation of a code of conduct on the transfer of technology, and the consideration of the developmental aspects of the reverse transfer of technology (brain drain), taken together, constitute significant steps towards a restructuring of international technological relations in support of the development process. The fifth session of the Conference would be a suitable occasion to advance the current negotiation on these issues towards an early and successful conclusion.

51. It must, however, be recognized that such a restructuring of existing technological relations between developed and developing countries will not by itself strengthen the technological capacity of the developing countries or accelerate their technological transformation. For the attainment of these latter objectives, complementary measures need to be taken in the developing countries themselves, at the national, regional and interregional levels.

52. A large number of developing countries have already established national institutions to deal with their problems of technological acquisition and development, while regional centres are also being established for the same purpose. In addition, developing countries need to move forward from the present situation in which policies on technology are often *ad hoc* and unco-ordinated, to evolving specific technology planning as an integral part of their national development plans. Moreover, in view of the fact that a number of developing countries already have a large and diversified scientific and technological base, there is great scope for preferential arrangements among the developing countries themselves for the transfer and development of technology.

53. An important task for the fifth session of the Conference would be to reach agreement on a comprehensive set of policies aimed at achieving the technological transformation of developing countries in the shortest possible time.

4. *The international monetary and financial framework*

54. Against the background of world economic developments since the fourth session of the Conference, in 1976, the need for reconstituting the existing international monetary and financial system has acquired even greater importance and urgency than before. While the working of the international adjustment process has been far from satisfactory, the problems of developing countries in the areas of debt, balance of payments and development finance require immediate remedial action. The discussion below seeks to set these monetary and financial issues in the wider context of the development process and to indicate their relevance for structural change and for the improved functioning of the world economy.

(a) *Reform of the international monetary system*

55. An important feature of the current world economic situation, as noted earlier, is the persistent imbalance in international payments, which has been associated with a number of changes in the working of the international monetary system.

56. First, the process of creation of international liquidity has been increasingly passed to the private sector, and liquidity creation by IMF has now become of relatively minor importance. Secondly, the commercial banking system has recycled a substantial proportion of the surplus funds to developing countries at fairly short maturities and at commercial rates; while this process has met the immediate financing needs of many developing countries, it has also substantially increased their future debt burden. Thirdly, the recycling process has also tended to aggravate the problem of shifts of short-term funds on a speculative basis, which remains a major factor in the continuing instability in exchange rates.

57. It has been argued that the depressed state of the world economy calls for a symmetrical adjustment, entailing action by surplus countries as well as by deficit countries to remove the causes of the imbalances. While this problem is under continuing and intensive discussion among the principal industrialized countries, it would appear that so far a disproportionate part of the burden of adjustment has been borne by the deficit countries. Apart from its deflationary bias, this pattern of adjustment is not without risks to the stability of the system itself.

58. These developments have serious implications for the effective management of the world's financial and trading systems, as well as for the development process in third-world countries. A reform of the international monetary system, and perhaps the establishment of an effective central world monetary authority, has now acquired much greater urgency than in the past. In considering the basic requirements for a reformed international monetary system, the following matters need particular attention.

59. There is, first of all, need to re-establish control by the international community over the creation of international liquidity—with an adequate share being allocated to developing countries—and, in this context, over the nature of the principal reserve asset.

60. Secondly, there needs to be a link between short-term management measures and the objectives of longer-term structural change in the international economy, with particular reference to the development needs of developing countries. The traditional distinction between short-term balance-of-payments support and longer-term development finance was never appropriate to the situation of the developing countries, since their balance-of-payments problems are essentially of a structural character. This dichotomy has lost much of its validity even for the developed market-economy countries, in view of the structural disequilibria which have developed in the national economies of this group of countries.

61. Thirdly, the effective participation of developing countries in the decision-making process needs to be increased, particularly through an increase in their voting power in IMF.

(b) *International financial co-operation for development*

62. A review of the transfer of financial resources from developed to developing countries in terms of their volume, composition and form clearly indicates that at present a coherent and effective international system of financial co-operation for development does not exist. Financial flows to developing countries from the private capital markets, for example, are determined primarily by supply and demand conditions in the industrialized countries rather than by the needs of developing countries, while the flows of official concessional finance remain limited in real terms and subject to the uncertainties of annual budgetary procedures.

63. The Conference at its fifth session could make an important contribution to the creation of a new international development policy by attempting to reach a consensus on the principal elements of an effective system of financial co-operation for development.

5. *Shipping*

64. A restructuring of the international economic framework would be incomplete without appropriate institutional changes relating to shipping services, which are an important element in the total external transactions of developing countries. Hitherto, UNCTAD's concern to facilitate an increased participation by developing countries in world shipping has been focused on the liner trades. The Convention on a Code of Conduct for Liner Conferences[10] assures developing countries the same right as their developed trading partners to carry cargoes in their own vessels, provides for improved relations between shippers and shipowners and for fair setting of freight rates, and strengthens the bargaining power of the weaker partners in relation to the traditional shipping operators.

65. The Convention represents a significant change in the institutional structure governing world shipping in favour of the developing countries. The fifth session of the Conference will need to review the position as regards ratification, and to take any necessary decisions to ensure the early implementation of the Convention.

66. The liner trades, however, account for only about 20 per cent of world cargoes. In the much larger bulk transport sector, the right of developing countries to participate in shipping services is not yet recognized by the traditional maritime nations. Moreover, the possibilities for entry of developing countries in the transport of bulk cargoes has in recent years been increasingly restricted by the growth of flag-of-convenience fleets owned by shipping interests of developed countries. The Conference at its fifth session will need to consider the adoption of a comprehensive programme of measures to phase out flag-of-convenience operations over a period of years and to ensure an equitable share for developing countries in their regular bulk cargo seaborne traffic.

6. *The special needs of disadvantaged countries*

The least developed countries

67. Despite the increased international attention paid to the special problems of the least developed countries in recent years, the economies of these countries have been stagnating or declining. Many of them have been particularly hard hit by the adverse effects on their export trade of the continuing recession and inflation in the developed countries. In all of them, the underlying structure defects of their economies are still to be overcome. A massive expansion in international co-operation is required to help these countries to achieve the structural transformation necessary for economic development. Indeed, such structural transformation could be regarded as an important element in the whole process of restructuring of the international economy.

68. A major element in a new international programme of special measures for the least developed countries would have to consist of a greatly expanded volume of financial and technical assistance by developed countries and by the international financial institutions, in the form of grants, directed more specifically than hitherto at removing the structural constraints to development, and supported by commercial policy measures to eliminate all trade barriers to exports from the least developed countries. But much more can be done in the framework of closer economic co-operation among the developing countries themselves, both on a regional basis—in terms of guaranteed market outlets, training programmes and other assistance—and on an interregional basis—in terms of financial and technical assistance from developing countries in a position to provide it, for example in helping the least developed countries to increase their food production and to establish domestic manufacturing industries.

69. The Conference at its fifth session will need to consider these and other relevant policy measures and attempt to reach agreement on a new and greatly expanded global programme of support for this group of countries.

Land-locked developing countries

70. The majority of these countries are also classified as least developed but, in addition, their development problems are accentuated by the general inadequacy of transit facilities to seaports and the consequent high cost of access

[10] For the text of the Convention, 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).

to world markets. For these countries, structural transformation needs to be complemented by joint action with their transit neighbours to reduce transit costs and to improve the quality, efficiency and reliability of transit services. Here, too, there is scope for positive action by regional or subregional groupings of developing countries. The Conference should consider adopting an expanded and comprehensive programme to overcome the transit and transport difficulties of the land-locked developing countries.

Island developing countries

71. Though these countries have many problems similar to those of developing countries generally, many also face some special problems arising from their remoteness from markets and sources of supply, their small domestic markets, low resource endowments and scarcity of skilled people. In addition, many islands are particularly vulnerable to natural disasters. The Conference at its fifth session could usefully review and strengthen the existing programme of special measures for island developing countries.

C. New linkages in a restructured international economy

1. *Economic co-operation among developing countries*

72. An international division of labour transformed in order to accommodate the industrialization of the third world would imply, as mentioned earlier, new patterns of specialization and trade, not only between developed and developing countries but also among the latter countries themselves. In their industrialization policies, developing countries should exploit the complementarities of their economies and the differences between them in comparative advantage of various types of manufacturing. To the extent that industrialization in developing countries is based on production of items of mass consumption, the possibilities for mutual trade expansion based on intra-industry specialization will be the greater.

73. Such expansion in trade among developing countries, since it will involve a break with the traditional structure of their external trade, needs to be actively promoted through new policies of mutual economic co-operation. The historical trade, financial and other linkages between most developing countries and the principal developed countries remain too strong for a reorientation towards closer ties among developing countries to be achieved merely through the normal working of market forces. Instead, active policies need to be evolved and implemented by the developing countries acting as a group and directed to a number of interrelated objectives.

74. In the first place, it will clearly be necessary to strengthen, or even refashion, the institutional framework within which economic interchange among developing countries takes place. The existing arrangements in these countries for transport, marketing, finance and credit facilities, insurance, export promotion and other services are still mainly concerned with economic linkages with developed countries. A very substantial expansion in similar institutional facilities directed to serving exchanges among developing countries is now essential. Studies are already well under way in UNCTAD on these and related issues.

75. Second, within such an extended institutional infrastructure, closer economic co-operation among developing countries can be promoted by a wide variety of arrangements, covering all aspects of their economic relations with each other. Such arrangements can most usefully be founded on the principle of preferential treatment given by developing countries to each other, preferences which they would not offer to developed countries. UNCTAD is already engaged in detailed studies of such possible arrangements, including, for example, a scheme of trade preferences, mechanisms for co-operation among State trading enterprises and the creation of multinational marketing companies.

76. These policies of closer economic co-operation among developing countries would not be aimed at achieving a collective autarky of the third world. Rather, they would be aimed at the full mobilization of the resources of the developing countries primarily to satisfy domestic needs, a process which itself will require, in many countries, structural and institutional changes to remove existing impediments to development. A self-reliant strategy of development implies also a redefinition of the relationship between developing and developed countries from one of dependence towards one of a more equitable sharing of the gains from economic exchange. A strategy of collective self-reliance would also involve an enhanced potential for common policies and common action by developing countries in their economic relations with developed countries, which will strengthen their countervailing power and reduce their dependence on the transnational corporations. Thus, closer economic co-operation among developing countries, based on the concept of collective self-reliance, should be viewed as an integral and vital part of a global development strategy involving a restructuring of international economic relations generally.

77. While the determination of specific policies and programmes for closer co-operation among the developing countries must remain the responsibility of the developing countries themselves, the Conference at its fifth session can assist in accelerating the movement towards the collective self-reliance of the third world by adopting a comprehensive programme of supporting measures that are needed on the part of the international community as a whole. The Conference also needs to consider strengthening UNCTAD's own contribution to the efforts of developing countries to reinforce their economic ties with each other, as well as the need for improved institutional arrangements towards this end.

2. *Trade and economic co-operation among countries with different economic and social systems*

78. An expansion of trade and other economic exchanges among countries having different economic and social systems, in particular between the developing countries and the socialist countries of Eastern Europe, can make a significant contribution to the more general restructuring of international economic relations. For one thing, such an expansion would greatly assist the developing countries to reduce their present excessive dependence on the economies of the developed market-economy countries, a dependence which is largely a legacy of the historical past. At the same time, closer trade and economic relations with socialist countries of Eastern Europe would open up for

developing countries new possibilities of international trade and specialization.

79. The socialist countries of Eastern Europe, as a group of mainly developed countries, could also make a significant contribution to the structural and institutional changes required in the international economic system, for example, by continuing their support for arrangements to stabilize and strengthen international trade and economic co-operation in general and world commodity markets in particular, and by further developing, jointly with their trade partners, policies and measures designed to accommodate the growing export potential of developing countries, particularly through the conclusion of long-term trade and economic co-operation agreements.

80. The possibilities for expanding economic links between the developing countries and the socialist countries of Eastern Europe are also substantially influenced by the economic relations of the socialist countries with the developed market-economy countries. Because of this interrelationship, measures to expand the flow of trade between socialist countries and developed market-economy countries, including the elimination of discrimination by the latter countries against imports from socialist countries, would indirectly enhance the potential for the latter's trade with developing countries.

81. Since the fourth session of the Conference, trade between developing countries and socialist countries of Eastern Europe has grown at a faster rate than world trade as a whole, though from a relatively small base. The period was notable for both an increase in the number of developing countries entering into trade agreements with socialist countries and for the introduction of new forms of economic co-operation, particularly the adoption of mutually supporting measures by the trading partners within the framework of comprehensive programmes of economic co-operation covering industry, science and technology and other areas.

82. In the period ahead, such comprehensive programmes could usefully be extended on a bilateral basis and, in addition, various forms of multilateral co-operation should also be activated, such as multilateralization of payments arrangements, use of transferable roubles acquired in trade with one CMEA member country for settlements with another CMEA member country, the implementation of tripartite arrangements involving enterprises of developing countries, socialist countries of Eastern Europe and developed market-economy countries, co-operation in third markets and the possibility for developing countries to co-operate with the CMEA countries as a group and with multilateral schemes of CMEA member countries.

83. In spite of the relative dynamism of trade among countries with different economic and social systems, in particular trade between developing countries and socialist countries of Eastern Europe, these flows of trade have remained relatively small in most cases. The Conference at its fifth session could consider adopting a series of measures for intensifying these trade flows as an integral part of the international action to restructure the existing pattern of international trade and economic relations.

CHAPTER III

The rules and principles governing international economic relations

84. The various aspects of structural change in the economies of both developed and developing countries which were discussed in the preceding chapter were each related to supporting changes in the international institutional framework. The common fund and international commodity agreements, the evolution of agreed principles to promote long-term industrial adjustment in developed countries, the code of conduct on the transfer of technology, the principles and rules on restrictive business practices, a reformed international monetary system and an effective system of international financial co-operation for development are some of the essential elements of a new institutional framework necessary to support and promote the structural changes that are required.

85. There are, in addition, some further aspects of the international institutional framework which require careful consideration. Because of the close interrelationship that exists between trade flows and flows of money and finance, the rules and principles governing these two sets of flows need to be mutually supportive and to be directed to the same basic objective. To ensure that these general purposes are attained, international action is needed on both their short-term and their long-term aspects. As regards the short-term problem, there is need for new mechanisms of international consultation to help harmonize natural policies in the fields of trade, money and finance, to ensure not only their mutual consistency, but also that short-term policies promote, and do not obstruct, the movement towards longer-term restructuring of the international economy.

86. As regards the general rules and principles governing international economic relations, which constitute the longer-term aspect of this question, one vital element—the reform of the international monetary system—has already been considered in the preceding chapter. In the present chapter, the discussion is focused on the related question of a reform of the trading rules.

87. The existing rules and principles governing international trade flows were evolved in the immediate post-war period by the main developed market-economy countries at the United Nations Conference on Trade and Employment, held in Havana, Cuba, from November 1947 to March 1948. The Havana Charter,[11] which was a blueprint for an international trade organization, provided a wide-ranging set of rules and principles covering employment, economic development, State trading, restrictive business practices and international commodity agreements, as well as commercial policy. However, it was only the rules and principles relating to commercial policy embodied in the General Agreement on Tariffs and Trade (GATT), established in 1947, that were put into effect by a number of Governments.

[11] See United Nations Conference on Trade and Employment, Havana, Cuba, 21 November 1947-24 March 1948, *Final Act and Related Documents* (E/CONF.2/78).

88. The GATT rules are based essentially on the twin principles on non-discrimination and reciprocity in commercial policy, and though in more recent years there has been recognition of the special needs of developing countries—explicitly by the addition of Part IV to the General Agreements in 1964[12]—this has been treated as an unavoidable exception to the basic principles, rather than as an integral part of them. The generalized system of preferences, which is the only commercial policy measure specifically designed for the developing countries, was negotiated outside GATT and implemented under a waiver from the GATT rules. Though the principle of special treatment for developing countries within the GATT framework is now recognized, there has been no change in the negotiating mechanisms or in the practical rules which would ensure the realization of that principle. Further changes in the GATT rules have been under discussion in the framework of the multilateral trade negotiations. Though these discussions were still in progress at the time of writing, it would appear that certain of the envisaged codes, such as those on safeguards and countervailing duties, are essentially directed to facilitating and legitimizing existing protective devices, rather than to instituting any basic reform.[13]

89. Such a basic reform has become increasingly urgent for a number of reasons. In the first place, the provision of a general legal basis for differential and more favourable treatment for developing countries in their trade with developed countries is now long overdue. There is, in other words, need for a further evolution of the rules in order to incorporate the principle of preference for developing countries as an integral part of them, rather than as an exception. It should follow from this also that favourable treatment should be given to developing countries in the procedures for any future trade negotiations.

90. A second reason for establishing new rules is that, as mentioned earlier, increasingly Governments of developed market-economy countries are relying on protectionist measures such as "voluntary" export restraints and "orderly marketing arrangements", which fall outside the scope of GATT, to control imports. Unless such protectionist measures are brought within the scope of internationally agreed principles and rules, they are likely to have serious adverse effects on world trade in general, and particularly on the trade of developing countries.

91. Thirdly, the existing rules ignore a major, and growing, part of world trade, namely, the intrafirm and related-party transactions of transnational corporations. The expansion of this trade in recent years has greatly widened the scope for discrimination among different countries with regard to their participation in international trade. The trade of developing countries, in particular, has become substantially affected by the restrictive business practices used by transnational corporations, as well as by decisions taken by these corporations on the basis of their global interests which affect the location of production facilities as well as the volume and pattern of trade flows.

[12] See GATT, *Basic Instruments and Selected Documents*, vol. IV, *Text of the General Agreement, 1969* (Sales No. GATT/1969/1).

[13] For a preliminary evaluation of the results of the multilateral trade negotiations, see document TD/227, reproduced in the present volume.

92. Fourthly, if the trading rules are eventually to cover all flows of trade—which would be necessary if they are to receive universal acceptance—they would need extending in order to provide a suitable framework for promoting the expansion of trade and economic relations between developing countries and socialist countries of Eastern Europe, taking into account the trading policies and practices of socialist countries as well as the trade and development needs of developing countries.

93. In sum, it would appear that the existing rules and principles governing international trade have become largely outmoded and increasingly ineffective and that they are in need of review, revision and extension. The objectives of such revision and extension would need to go beyond those of the commercial policy provisions of the Havana Charter, which were essentially to provide an international legal framework for freely competitive markets, albeit with adequate safeguards for national employment and balance-of-payments interests. What is now required is a reformulation of the trading rules so that they operate to promote the development of the third world while, at the same time, taking into account the new developments in the world economy mentioned above. Such an approach would also introduce an element of global management, allowing the international community to exercise a significant influence on the pattern and direction of world trade flows.

94. World trade flows are, however, influenced not merely by commercial policies, particularly those of developed market-economy countries, which impinge directly on trade practices, but, increasingly, by their domestic economic policies—industrial, agricultural, fiscal and other policies—which have come to exercise a growing indirect influence on international trade and on the trade and development of developing countries. A reformulated set of trading rules, to be effective, will need to be supported, and complemented, by internationally agreed principles relating to the impact of domestic economic policies on trade in general and on the trade of developing countries in particular.

95. This raises the question of the desirability of negotiating, on a universal basis, a new international economic convention which would embody mutually consistent principles and rules covering all the various policy aspects mentioned above, i.e. the revised trading rules and related principles concerning domestic economic policies, the operations of transnational corporations, restrictive business practices, and trade and economic relations between developing countries and socialist countries. Such a comprehensive economic convention, which would constitute, in effect, a new and updated version of the Havana Charter—could also usefully include general principles for the conclusion of international commodity agreements and arrangements, based on the evolution of policy in this area within UNCTAD in recent years. A new economic convention on the lines proposed should take fully into account the relevant provisions of the Charter of Economic Rights and Duties of States,[14] as well as those of General Assembly decisions on the establishment of a new international economic order.

[14] See General Assembly resolution 3281 (XXIX) of 12 December 1974.

CHAPTER IV

The contribution of UNCTAD to the formulation of a new International Development Strategy

96. In 1980, the General Assembly will consider and adopt a new International Development Strategy for the 1980s, to which UNCTAD is expected to make its own contribution.

97. The fifth session of the Conference will in fact be making a specific contribution to the extent that agreement is reached on new policies, new programmes or new institutional arrangements under the various substantive items of the agenda. In the period following the fifth session, the decisions reached at the Conference can usefully be assembled as part of the contribution of UNCTAD to the General Assembly's work.

98. But at its fifth session the Conference could also agree on the general guidelines for that contribution. In this connexion, it should be borne in mind that the General Assembly has already decided that the new strategy should be formulated within the framework of the New International Economic Order and should be directed towards the achievement of its objectives, by the promotion of international co-operation for development.[15] The central element in the concept of the New International Economic Order, as set out in the Declaration and the Programme of Action adopted at the sixth special session of the General Assembly, is the need for a restructuring of the existing institutions governing international economic relations in favour of developing countries.[16] Moreover, the central issues in the North-South dialogue, which constitute in effect the negotiating agenda in the evolution of a more effective system of international economic co-operation for development, are all in one way or another related to the theme of structural change in the international economy, the same theme that has been the subject of the present paper.

99. Against this background, the Conference at its fifth session could consider appropriate institutional arrangements for the preparation of the contribution of UNCTAD to the work of the General Assembly on this subject.

[15] General Assembly resolution 33/193 of 29 January 1979, entitled "Preparations for an international development strategy for the third United Nations development decade", sect. I, para. 1.

[16] On this point, see "The evolution of a viable international development strategy: report by the Secretary-General of UNCTAD" (TD/B/642), paras. 13-19.

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Statistical annex

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Note. The tables presented in this annex are intended to illustrate some of the points made in the evaluation of the world trade and economic situation contained in document TD/224. More comprehensive statistical data may be found in UNCTAD, *Handbook of international trade and development statistics, 1979* (United Nations publication, Sales No. E/F.79.II.D.2).

TABLE 1

Economic growth in major country groups, 1960-1977

	Population, 1977[a] (percentage)	GDP per head, 1977 (index)[b]	Change in total GDP (percentage per annum) 1960-1970	1970-1973	1973-1977	Change in GDP per head (percentage per annum) 1960-1970	1970-1973	1973-1977
Developed market-economy countries	24	100	4.9	5.1	2.1	3.9	4.1	1.1
Socialist countries of Eastern Europe[c]	12	..	6.7	6.6	6.0	5.9	5.7	5.0
Developing countries:[d]								
Total	64	9	5.3	6.3	5.4	2.8	3.7	2.8
Medium- and high-income countries	23	12	6.0	7.8	5.9	3.2	5.0	3.1
Low-income countries[e]	41	3½	4.1	3.0	4.1	1.7	0.6	1.7
of which:								
Least developed	8	3	3.1	3.2	3.3	0.8	0.8	0.9

Source: UNCTAD, *Handbook of international trade and development statistics, 1979* (United Nations publication, Sales No. E/F.79.II.D.2).

[a] Shares in the total of the first three country groups shown.

[b] GDP per head in developed market-economy countries = 100.

[c] The figures for GDP relate to net material product.

[d] Excluding China and other socialist countries of Asia.

[e] Per capita income below $400 in 1976.

TABLE 2

Rates of inflation in developed market-economy countries, 1971-1979

	Pecentage change from preceding year 1972	1973	1974	1975	1976	1977	1978	1979
GNP/GDP deflator[a]	4.8	7.5	11.9	11.2	7.6	7.4	7.3	7.0[b]
Consumer prices[a]	4.4	7.5	13.2	10.6	7.9	7.7	6.8	6.5[b]
Unit values of exports of manufactures[c]	7.6	17.7	21.8	12.3	0.5	8.7	13.6[d]	..

Sources: OECD Economic Outlook (Paris), December 1978 and earlier issues; United Nations, *Monthly Bulletin of Statistics.*

[a] OECD countries.

[b] OECD forecast.

[c] Based on United Nations index covering exports of the main industrial countries.

[d] Provisional.

TABLE 3

Trade and payments balances of developed market-economy and developing countries, 1974-1978

(Billions of dollars)

	Developed market-economy countries: Japan	Federal Republic of Germany	United States of America	Other	Total	Developing countries[a]: High income	Medium income	Low income: Total	Low income: Least developed	Total
Trade balance[b]										
1974	-6.4	20.2	-10.0	-71.9	-68.1	64.5	1.7	-2.6	-2.2	63.6
1975	-2.0	15.8	3.2	-52.1	-35.1	39.4	-7.7	-8.7	-3.3	23.0
1976	2.4	14.3	-15.5	-61.2	-60.0	57.6	-4.2	-4.3	-2.4	49.1
1977	9.8	17.2	-37.7	-55.7	-66.4	51.6	-7.9	-5.3	-3.9	38.4
1978	18.3	21.2	-41.6	-41.7	-43.8	28.8	-12.5	-10.4	-5.2	5.9
Current payments balance[c]										
1974	-4.5	12.5	8.1	-35.8	-19.7	42.1	-0.8	-6.7	-2.5	34.6
1975	-0.4	7.6	22.4	-19.9	9.7	15.5	-9.5	-11.1	-3.4	-5.1
1976	3.9	7.7	8.7	-27.4	-7.1	25.1	-7.9	-5.3	-1.6	11.9
1977	11.1	8.0	-11.1	-17.6	-9.6	19.5	-9.3	-4.6	-2.1	5.6
1978[d]	20.4	12.4	-13.8	..	..	..	..	..	..	..

Source: UNCTAD, *Handbook of international trade and development statistics, 1979* (United Nations publication, Sales No. E/F.79.II.D.2).

[a] Income groups are defined as follows:

High-income countries are those with a per capita income over $800 in 1976.

Medium-income countries are those with a per capita income of $400-$800 in 1976.

Low-income countries are those with a per capital income under $400 in 1976.

[b] Exports (f.o.b.) less imports (c.i.f.).

[c] Excluding official transfers.

[d] Provisional.

TABLE 4

Trade experience of developing countries,[a] 1970-1978

(Percentages)

	Average annual change 1970-1973	Change over previous year 1974	1975	1976	1977	1978
Volume of exports						
High-income countries	8.9	−17.1	−9.3	15.5	1.8	4.4
Medium-income countries	12.4	−3.5	−3.6	12.9	9.4	6.1
Low-income countries	3.5	−7.2	−1.9	11.9	6.2	0.0
of which: least developed countries	−4.2	−6.8	−4.9	7.7	8.3	−2.2
All developing countries	8.9	−10.1	−6.9	14.8	4.8	3.8
Purchasing power of exports						
High-income countries	13.4	58.2	−10.0	19.7	2.4	−7.8
Medium-income countries	10.0	20.3	−11.9	17.7	8.4	−4.4
Low-income countries	2.9	8.3	−10.2	17.9	10.4	−5.8
of which: least developed countries	−5.3	−10.6	−7.9	24.3	11.5	−13.4
All developing countries	11.1	45.3	−11.6	19.9	4.3	−7.3
Volume of imports						
High-income countries	9.7	19.7	8.9	12.2	10.9	5.6
Medium-income countries	4.5	16.7	15.8	5.2	14.2	3.2
Low-income countries	1.0	6.8	11.8	−1.6	11.6	5.9
of which: least developed countries	−3.1	1.1	13.0	−1.9	24.5	3.1
All developing countries	6.9	17.2	10.5	8.2	11.7	5.2
Terms of trade						
High-income countries	3.8	92.9	−0.9	3.3	1.4	−12.1
Medium-income countries	−2.0	24.5	−8.5	3.7	−0.9	−10.0
Low-income countries	−0.7	16.3	−7.0	4.7	3.6	−6.1
of which: least developed countries	−1.1	−4.1	−4.3	16.9	1.9	−10.4
All developing countries	1.6	63.8	−4.7	3.7	0.0	−11.2

Source: UNCTAD, *Handbook of international trade and development statistics, 1979* (United Nations publication, Sales No. E/F.79.II.D.2).

[a] For definitions of income groups, see foot-note a to table 3.

TABLE 5

Direction of trade of developed and developing countries, 1970-1977

Exports to → / Exports from ↓	Values (billions of dollars, f.o.b.): Developed market-economy countries	Developing countries	Socialist countries of Eastern Europe	Total[a]	Shares (percentage): Developed market-economy countries	Developing countries	Socialist countries of Eastern Europe	Total
Developed market-economy countries								
Average 1970-1973	227.0	54.1	9.9	291.0	78.0	18.6	3.4	100
Average 1974-1977	443.9	143.0	27.1	614.0	72.3	23.3	4.4	100
Developing countries								
Average 1970-1973	54.8	15.6	3.3	73.7	74.4	21.1	4.5	100
Average 1974-1977	174.7	55.0	8.9	238.5	73.2	23.1	3.7	100
Socialist countries of Eastern Europe								
Average 1970-1973	9.3	4.9	23.1	37.4	24.8	13.2	62.0	100
Average 1974-1977	22.6	11.0	44.7	78.3	28.9	14.0	57.1	100

Source: UNCTAD, *Handbook of international trade and development statistics, 1979* (United Nations publication, Sales No. E/F.79.II.D.2).

[a] Excluding small amounts of exports unallocated by destination.

DOCUMENT TD/225

Policy issues in the fields of trade, finance and money and their relationship to structural changes at the global level

Report by the UNCTAD secretariat

[*Original: English*]
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CONTENTS

Summary and conclusions

1. There has been a presumption that international development strategies concerned with the development of developing countries could be treated independently of broader developments at the global level. Implicit in this view has been the notion that the development of developing countries could be accommodated within the framework of a steadily expanding world economy. Thus, special measures in favour of developing countries were seen as temporary exemptions from the "rules of the game", granted only for the purpose of speeding up the process of "graduation" of these countries to full partnership in the global system.

2. The first and second United Nations Development Decades[1] broadly reflected this conceptual framework. The international measures, mostly in the form of aspirational targets, ranging from the provision of official development assistance to trade preferences, were meant to improve the international environment for developing countries largely within the context of the existing international economic order.

3. In the event, the basic objectives of the International Development Strategy for the Second United Nations Development Decade did not materialize. For one thing, developed countries, as a group, failed to fulfil the role that the Strategy envisaged for them, perhaps partly because the measures expected of them were not perceived by their public and their policy-makers as being essential elements of their own foreign economic policy or domestic development. For another, the underlying assumptions regarding a steadily growing world economy have been largely invalidated by the serious economic crisis that has dominated the decade of the 1970s. Underlying this crisis are shifts in the domestic structures of the major industrial countries as well as shifts in the distribution of economic power among them. These structural shifts have placed increasing pressures upon the international economic system, which now appears ill-equipped to provide an effective mechanism for reconciling conflicting national objectives.

4. Two major conclusions emerge from the experience of the 1970s. First, the development issue cannot be isolated from those basic to the operation of the world economy. Indeed, the rapid development of developing countries can best be promoted within a policy framework encompassing the entire world economy and having among its objectives the restructuring of the world economy for global development. Secondly, a successful global development strategy presupposes reconciliation of conflicting national objectives. Given the derailment of the entire international economy, the resolution of these conflicts can no longer be entrusted to consultations among a few States only or to separate and largely unco-ordinated international examination of issues in the fields of trade, payments, finance and development; rather, it would require a broad overview of the management of the world economy on the basis of internationally agreed objectives and with the effective participation of all States.

5. These conclusions have far-reaching implications for the preparation of the International Development Strategy for the 1980s and the interrelationship between development objectives and structural changes on a world scale.[2] But they also have implications regarding the manner in which policies affecting the world economy are to be

[1] General Assembly resolution 1710 (XVI) of 19 December 1961 and 2626 (XXV) of 24 October 1970.

[2] These issues are explored in document TD/224, reproduced in the present volume.

assessed. In particular, effective management of the world economy would require that problems in the areas of trade, payments and finance should be considered together and in the context of their interdependence and relationship to development. The past two sessions of the United Nations Conference on Trade and Development stressed the need for considering these interrelated problems in such a broader framework. In response to this, the Trade and Development Board has included this issue in its agenda as a regular review item. In order to assist the Board to carry out this mandate more effectively, it is suggested that a high-level advisory group be established which would examine the problems relating to the management of the world economy, especially in the interrelated fields of trade, payments, finance and development, and make recommendations for consideration by the Board, particularly at its ministerial sessions, regarding action that may be required to bring actual policies into closer harmony with the requirements of structural change in the world economy and the development of developing countries.

CHAPTER I

Global development and structural change

6. The present report is concerned essentially with problems of the management of the international economy and with the relationships between short-term policies and long-term development objectives, particularly the objective of promoting structural change. It thus complements the report that focuses on the long-term aspects of the restructuring of the global economy.[3] The links between global development, structural change, international development objectives and economic management are complex. It would appear useful, therefore, to explicitly outline the analytical and normative framework within which they are approached in the present report.

7. It is taken as accepted that a fundamental goal of the international community is the eradication of the present overwhelming disparities among and within countries with respect to *per capita* consumption levels and quality of life. It is further presumed that this goal is to be achieved by increasing the productive capacity of the poorer groups in the world community within a context of global development—a process which will involve a more equitable decision-making process at the international level.

8. While there appears to be a general consensus on the fundamental goal of global development, there is not as yet agreement as to how progress towards this objective is to be advanced. Nevertheless, the debate regarding the management of the world economy would be placed on a firmer basis if the underlying goal were clearly understood and kept in the forefront by all parties concerned.

9. Global development implies, by definition, continuous structural changes on a world-wide basis. Yet, not all patterns of structural changes yield a form of global development that satisfies the fundamental goal mentioned above. The set of structural changes that meet this condition must, among other things, provide for an accelerated pace of development of the developing regions.

[3] *Ibid.*

10. The development of the developing regions, in turn, implies that their domestic production structures would become more highly evolved and internally integrated. They would attain the capability of producing a much wider range of products and, in general, their economies would be less heavily concentrated in particular sectors. At the same time their income levels would increase in relation to the world average and their consumption patterns would alter as a consequence.

11. This structural transformation of the domestic economies of the developing regions would be reflected in the level and composition of their demand for imports from the rest of the world and in their relative competitiveness in world markets for more highly processed goods. The present trade patterns whereby the developing regions for the most part export primary commodities to the industrialized regions and import manufactured goods in turn would be replaced by a more balanced composition, in particular with growing exports of manufactures from developing countries. The current pattern of trade among industrialized countries, which is characterized by intra-branch specialization, would come to predominate throughout the world economy.

12. The indicated changes in the pattern of international economic relations obviously imply that structural changes in the domestic economies of the existing industrialized regions will be required. Indeed, any viable international development strategy will need to be based on the recognition that the development process includes not only increased productive capacities in the developing regions but also corresponding structural changes in the developed regions.

The link between short-term economic management and development objectives at the global level

13. At the global level, development objectives have been expressed in the form of aspirational targets. On the other hand the structure of the world economy has been shaped mainly as a result of policy decisions by those industrialized countries that have come to play a major role in the management of the world economy. The conditions required for consistency between global development objectives and the national policies and objectives of major economies are indeed very stringent and, as the post-war experience has amply demonstrated, it is most unlikely that these conditions can be met within the current framework of international co-operation. It follows that a viable strategy for global development must provide mechanisms for ensuring that economic policies devoted to immediate problems are fully consistent with the longer-term development objectives.

14. The lack of an explicit treatment of linkages between current policy issues and long-term development objectives is one of the major shortcomings in international economic co-operation. The existing dichotomy between long-term development objectives on the one hand and short-term policies on the other results not only in an increased sense of frustration but also in an inefficient management of the world economy. Indeed, the short-term horizon implied in policy decisions devoted to immediate problems often compromises their success.

Interrelationship of problems in the areas of trade, payments, finance and development

15. The framework of international economic relations is based on rules and regulations that are usually embodied in multilateral agreements or convenants. The set of these rules define the parameters of the international economy system.[4]

16. An international economic system may be said to be in a state of dynamic equilibrium when it permits reconciliation of national objectives in a manner that permits all countries to make full use of their productive capacity and growth potential. For example, for developed countries a system that required departures from high levels of employment in order to achieve external balance would be deemed unsatisfactory. Likewise, developing countries would regard as inadequate a system that failed to provide the external environment needed for the attainment of otherwise domestically feasible growth rates. In other words, the system must be fully consonant with the requirements of a dynamic world economy; in particular, it should be able to accommodate the world-wide structural shifts in the allocation of investment, industrialization and trade flows that are implied by the process of development.

17. When the international economic system is in equilibrium, its management is limited to assuring that the rules of the game are observed. For a number of reasons, this task may be entrusted to multilateral organizations each specializing in one of the distinct albeit interrelated components of the system, namely, trade, payments and finance. On the other hand, when the system experiences strains of fundamental disequilibrium this largely compartmentalized approach to the management of the international economy bears a number of risks. Since the various elements of the trading, monetary and financial systems are closely intertwined, the success of changes in the rules and procedures in one area will depend on complementary measures and changes in the other areas. Changes in the rules and procedures adopted separately in the several spheres should, in the final analysis, be regarded as part of a co-ordinated over-all settlement of the tensions in the international economy. It is in the nature of the case that some elements of that settlement will appeal most to some countries, other elements to others. There is a danger that if each measure were acted upon by itself, countries might feel free to accept or reject the various component parts one by one instead of taking a view of the entire settlement as a whole. This in turn could lead to an unbalanced outcome.

18. As is explained below, the international economy is in fact operating under severe stresses. It follows, therefore, that present arrangements and prospective changes in the spheres of trade, money and finance must be assessed in the context of a comprehensive approach and must be viewed in terms of the requirements for economic expansion and structural change in the world as a whole.

[4] The international economic system is not necessarily a global one. The world economy may comprise, as in fact it does, several international systems which come into contact with each other in the framework of *ad hoc* arrangements.

CHAPTER II

Lessons of the post-war era for the world economy

19. The interrelated character of the world economy was in the minds of those responsible for the post-war effort to fashion a new and viable system of international trade, payments and lending. This effort was undertaken to avoid a recurrence of the interwar experience in which unemployment, trade and payments restrictions, currency uncertainty and the collapse of the international credit system each reinforced the other in depressing output and arresting growth.

20. The system established in the aftermath of the Second World War was intended to encourage a cumulative process making for world expansion. This was to be accomplished by complementary action on several fronts; the dismantling of trade barriers and payments restrictions; the maintenance of orderly exchange rates and the prevention of disruptive capital movements; the provision of credit facilities for payments adjustments and the resumption of investment flows into developing countries.

21. The International Monetary Fund (IMF) and the International Bank for Reconstruction and Development (IBRD), which emerged from the Bretton Woods Conference, and later on the General Agreement on Tariffs and Trade (GATT),[5] embodied the rules and procedures of the post-war international economic system.

22. The post-war system was remarkably successful in its basic objectives, namely the attainment of high levels of employment in the industrialized countries and the expansion of world trade and output. This success, which was

[5] The General Agreement on Tariffs and Trade emerged as an interim arrangement for commercial policies in the aftermath of failure to ratify the establishment of an International Trade Organization. The latter was envisaged as a necessary complement to IBRD and IMF. The Havana Charter, which was drawn up in 1948, adopted in article 1 the following objectives:

"1. To assure a large and steadily growing volume of real income and effective demand, to increase the production, comsumption and exchange of goods, and thus to contribute to a balanced and expanding world economy.

"2. To foster and assist industrial and general economic development, particularly of those countries which are still in the early stages of industrial development, and to encourage the international flow of capital for productive investment.

"3. To further the enjoyment by all countries, on equal terms, of access to the markets, products and productive facilities which are needed for their economic prosperity and development.

"4. To promote on a reciprocal and mutually advantageous basis the reduction of tariffs and other barriers to trade and the elimination of discriminatory treatment in international commerce.

"5. To enable countries, by increasing the opportunities for their trade and economic development, to abstain from measures which would disrupt world commerce, reduce productive employment or retard economic progress.

"6. To facilitate through the promotion of mutual understanding, consultation and co-operation the solution of problems relating to international trade in the fields of employment, economic development, commercial policy, business practices and commodity policy.

[See United Nations Conference on Trade and Employment, Havana, Cuba, 21 November 1947-24 March 1948, *Final Act and Related Documents* (E/CONF.2/78).]

cumulative in character, was accompanied by progressive liberalization of world trade and payments, the avoidance, by and large, of competitive undervaluations and the expansion of international investment.

23. The system had, however, a number of important limitations. In the first instance, the universality of membership originally envisaged for the Bretton Woods institution failed to materialize. Partly because of the inherent difficulties in accommodating economies with centrally planned systems into essentially a liberal and market-oriented framework and partly because of the general political climate prevailing at that time, the socialist countries of Eastern Europe and China did not join. In fact, the former organized themselves into a system of mutual economic co-operation, the Council for Mutual Economic Assistance (CMEA), on the basis of rules and procedures that reflected the centrally planned character of their economies. A further serious limitation was that the system was not geared to tackle the special trade and financial problems of developing countries. In a sense, the international discussions relating to the development of developing countries may be seen as originating from the strong feeling of these countries that the development issue should be treated as an integral part of the management of the world economy and that the rules governing international economic relations should take explicitly into account their special problems.

24. The fact that the remarkable expansion of world trade and output took place in the framework of the rules of the game enshrined in the Articles of Agreement of the Bretton Woods institutions and in the General Agreement on Tariffs and Trade may lead to the conclusion that the latter were a necessary and sufficient condition for the former. Whether the rules of the game were necessary in view of the market-oriented character of the major industrial countries participating in the system remains a matter for conjecture. What can be said with some certainty is that these rules prevailed during the period of expansion of world trade and output. But the elements of growth were not provided by the rules themselves. The thrust of the post-war growth is to be found in the sharply unequal distribution of economic power among the industrial countries and the willingness of the major industrial Power to underpin the system—in terms of maintaining the key currency, opening its markets, providing capital and technology and extending financial aid—and thus make it possible for the other industrial countries to proceed with relative ease with the reconstruction and development of their economies.

The shifting balance of economic power and structural changes

25. The most significant feature of the evolution of the world economy in the post-war era is the transition from the monopolar situation which existed among the developed market-economy countries immediately after the war to the multipolar conditions of today.

26. The aftermath of the war placed the United States of America in the position of the single major supplier of capital and technology to Western Europe and Japan. The role of the dollar as the major reserve currency enabled the United States to become a net exporter of capital and goods while maintaining, mainly on account of military and security expenditures, a deficit on current account. The foreign economic policy of the United States provided all necessary ingredients for stimulating the growth of the other industrial countries. The induced structural changes in the latter led to a rapid increase in productivity which, coupled with the added stimulus to demand supplied by the external position of the United States, led in turn to rapid shifts in the relative economic position among the industrial countries. A sensitive indicator of the shifts in productivity which took place is the balance of trade of machinery and transport equipment for the United States. Thus, over the decade 1955-1965 the trade surplus of the United States with Western Europe as a share of its total exports in this category fell from 55 per cent to 30 per cent and with Japan from 73 per cent to 20 per cent.

27. The changes in economic balance are also reflected in the broader economic aggregates of gross domestic product and total trade. For example, in 1950 the major reserve currency countries, namely, the United States and the United Kingdom, accounted for approximately 50 per cent of total exports of the developed market-economy countries, whereas by 1970 this figure had fallen to 30 per cent. Rates of growth of GDP, in real terms, also reflect these shifts, with Western Europe and Japan growing at average annual rates of 4.4 and 8.4 per cent respectively during the period 1950-1976, while the corresponding figure for the United States was only 3.5 per cent.

28. The socialist countries of Eastern Europe have also experienced impressive gains during the post-war period. Taken as a group, these countries achieved an average annual rate of growth in national production of 7.7 per cent during the period 1950-1976. While the economic transactions of this group with the rest of the world have increased steadily and at impressive rates since the mid-1950s, the level achieved fell far short of that which would have been observed if the institutional framework were more elastic. In dealing with the need for a reformed system, it is fitting that the measures taken should be of a character that makes it possible to envisage a greater degree of economic co-operation among groups with different economic and social systems.[6]

29. The developing countries, taken as a group, have grown somewhat faster than the developed market-economy countries and achieved a growth rate of GDP in real terms in the neighbourhood of 5 per cent per annum during the period 1950-1976, although on a *per capita* basis the gap in standards of living has increased. A number of developing countries which have either abundant natural resources or relatively sophisticated infrastructure experienced significant inflows of capital and technology and succeeded in pursuing an export-oriented development path which bears some similarities with that followed by several countries in Western Europe and by Japan. The overwhelming majority of developing countries, however, were not in a position to avail themselves of the opportunities opened to the industrial or industrializing countries and their role in international economic co-operation has remained, by and large, that of the provider of raw materials in exchange for manufactured goods. In the

[6] For a discussion of the problems involved in and the opportunities offered by expansion of economic relations among countries having different social and economic systems, see document TD/243, reproduced in the present volume.

absence of a scheme to strengthen commodity markets and adequate provision of concessional finance, these countries have found it increasingly difficult to meet the requirements of even minimal development plans.

30. The shifting of the economic balance was associated with profound changes in the areas of trade, finance and payments. With regard to trade, it is noteworthy that its impressive expansion was associated with pronounced changes in its composition. While in the earlier periods exports of manufactured goods were sustained largely by their exchange against commodities, the post-war era was characterized by increasing trade of a wide variety of manufactures with one another. An immediate consequence of the phenomenon was the over-all growth of trade ceased to be constrained by the volume of commodities that primary producers in developed and developing countries were able to export. Thus, while the volume of world trade in commodities less than doubled, the volume of manufactures nearly tripled between the years 1960 and 1971. Moreover, the post-war trade in manufactures was a reflection more of technology factors and intrabranch specialization among the trading partners than of relative factor endowments. An important exception to this was the exports of manufactures from developing countries which, by and large, consisted of labour-intensive or resource-intensive goods. This distinction perhaps helps to explain, to some extent, the asymmetrical treatment of manufactures by developed and developing countries in multilateral exercises for tariff cuts. In the case of the former, the manufacturers saw the possibilities of further gains in freer trade. But for this to be feasible they had to agree on product specialization or differentiation and interpenetration of national markets. The prospects of mutually beneficial tariff cuts are evident and this explains the relative ease with which most of these products were the subject of trade liberalization. In the latter case, however—labour-intensive or resource-intensive exports—there was little scope for a bargain to be effected between industrial and developing countries on the basis of reciprocal advantage.

31. Perhaps even more impressive than the expansion of trade was the striking movement towards the internationalization of production which materialized through massive transfers of long-term capital, mainly in the form of direct investment. In 1971, the total value of "international production"[7] was placed at $330 billion, as compared to $310 billion of total world exports. This phenomenon has had far-reaching implications for the management of the world economy. First, the emerging new financial and production decision centres transcend national governmental surveillance. Secondly, an important part of international trade, about one third, reflected exports by foreign affiliates. Thirdly, about 20 to 25 per cent of exports of major industrial countries consisted of intracompany transactions.[8] As a result, the efficacy of policy instruments in influencing real and monetary variables, as well as the balance of payments, was reduced.

32. The movement towards internationalization was also evident in the monetary field. The spectacular growth of highly mobile short-term capital in the past 15 years has had a profound influence on both national economies and the working of the international system. On the one hand, these markets provide an important source of funds for countries which experience payments deficits and for a number of reasons wish to finance rather than suppress them. On the other hand, the highly liquid character of the assets renders the market unstable. Sudden changes in market perceptions which trigger massive movements of capital are by no means infrequent. Governments have found it difficult to amass the necessary resources to stave off a speculative run on their currencies. As a result, Governments are often obliged to tailor their policies to market perceptions even at the risk of compromising national objectives and priorities.

The emergence of structural disequilibria and the crisis

33. The shift in the balance of economic power that was brought about by the post-war pattern of growth and structural changes placed the international economic system under increasing strains. By the mid-1960s, it became apparent that the margin for reconciling conflicting objectives through the growth process was indeed very limited. Conflicts in the field of trade, especially with regard to agricultural products, increased, and in Western Europe there was widespread concern about the tendency towards internationalization of production under the leadership of American multinational corporations.

34. In the monetary area, the conflicts became even more serious. Major industrial countries in Western Europe and Japan, whose industries are relatively export-oriented, profited from the overvaluation of the dollar and succeeded in increasing their share of world trade and establishing a comfortable payments surplus. Continuation of this situation meant, however, that these countries would continue to be prepared to "finance" the growing deficit on current account of the main reserve centre by accumulating dollar reserves whose eventual conversion into gold was becoming increasingly problematic. On the whole, the stand that these countries took was somewhat ambivalent. On the one hand, they stressed the need for the United States to take measures to strengthen its current account position and thus help avoid world inflationary pressures which, in their view, would stem from a weakening dollar. On the other hand, they were reluctant and often unwilling to take measures themselves, mainly through appreciation of their currencies, which *inter alia* might reduce payment imbalances by weakening their own trade and current account position.

35. For the main reserve centre the problems were equally pressing. The overvaluation of the dollar had significantly weakened its competitive position and key industries were losing ground to foreign competitors (including subsidiaries of United States companies operating abroad) even in the domestic market. At the same time, the role of the dollar as the main reserve currency required that it remain stable in its relation to gold. In the face of the dilemma between the need to meet national priorities and goals and the requirements of the dollar as an international reserve asset, the Government remained indecisive until August 1971.

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[7] Defined as the output of enterprises owned or controlled by parent organizations outside the producing country.

[8] Taking into account only majority-owned affiliates.

36. The measures announced by the United States Government in August 1971[9] had far-reaching implications for the international economic system. Not only did they seal the fate of the Bretton Woods system but they drove home the clear message that the United States was no longer prepared to underpin the viability of an international monetary system at the cost of its national priorities and requirements. Henceforth, the dollar would have the same freedom of exchange-rate changes as other currencies in order to adjust imbalances in external accounts. This meant that the management of the system as well as the costs and responsibilities accompanying it had to be shared with other countries.

Managing the economy under crisis conditions

37. The immediate response of the international community to the monetary crisis was the establishment of the IMF Committee on Reform of the International Monetary System and Related Issues (Committee of Twenty) which was entrusted with the task of working out the blueprint of a new international monetary system. While the Committee did recognize that the question of monetary reform was intimately related to problems in the areas of trade and development finance, its working assumption was that the rules prevailing in these areas were, broadly speaking, satisfactory.

38. The reformed monetary system was expected to work hand-in-hand with a liberal (that is, an open and non-discriminatory) trading system. The Committee did not, and perhaps could not, fully anticipate the rising wave of protectionist policies that came to challenge the foundations of the trading system in later years. Nor did the Committee consider it necessary to take into account the need for reform in the commodity area. Here again, the Committee implicitly assumed that the process of growth would continue to be based on abundant supplies of raw materials, at relatively low prices. Fluctuations in commodity prices were seen as posing some balance-of-payments problems to the producing nations but those were to be dealt with in the context of an improved compensatory financing facility.

39. In the area of finance, the Committee explicitly recognized the need for policies to underpin the functioning of the monetary system. In fact, one of the key issues to which it addressed itself was the proposal for establishing a link between the creation of special drawing rights (SDRs) and additional development finance for developing countries. The relationship between the functioning of the international monetary system on the one hand and capital movements on the other hand was also recognized, but the Committee stopped short of considering measures to harness the operations of private capital markets in respect of both the creation of international credit and short-term capital movements. To be sure, the Committee could not have anticipated the phenomenal growth of private capital markets that payments imbalances in later years brought about. In the event, the functioning of the international monetary system in general and the adjustment process in particular came to depend upon market perceptions about the effectiveness of national policies and the differential economic performance of Governments.

40. The negotiations for a reformed international monetary system proved to be difficult. Views differed on fundamental aspects of the reform between the main reserve currency country and the others, between surplus and deficit countries and between developed and developing countries. The trade-offs that were offered in the reform exercise were not adequate to reconcile conflicting interests. In retrospect, it appears that the probability of reaching a consensus would have been higher if the reform exercise had encompassed the broader question of restructuring the international economic system with specific measures in the areas of trade, finance and development. For example, Governments that did not consider a particular proposal in the monetary field to be in their interest could have been induced to accept it had they been offered adequate compensatory changes in other spheres.

41. The unusual constellation of forces that shocked the world economy in the period 1972-1974[10] led the international community to abandon its efforts for a fundamental reform of the international monetary system. In completing its work in 1974, the IMF Committee of Twenty sketched out the basic objectives of a reformed international monetary system, which were to be achieved in an evolutionary manner as world economic conditions improved.[11] Thus ended the first and only genuine attempt to introduce fundamental reform in one of the key areas of international economic relations.

42. The response of Governments to the economic crisis was on the whole defensive. Attention was focused on the immediate problems that the crisis posed. At the same time, there was also widespread feeling that the problems at hand had their roots in deep-seated structural factors. Led by developing countries, the international community acknowledged the need to establish a new international economic order. The Programme of Action on the Establishment of a New International Economic Order launched at the sixth special session of the General Assembly and further elaborated at the seventh special session[12] gave a powerful impetus to negotiations relating to the development of developing countries. Perhaps more important than the measures proposed was the fundamental change in the framework in which the development issue was viewed. For the first time, development issues were seen to be an integral part of the broader question of the management of the world economy. Development brings along structural changes not only in the domestic economies but also in the international economic system. Conversely, the latter affects in a profound way the potential of development and

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[9] The domestic measures included a short-term freeze on rents, wages and prices followed by guidelines, cuts in government spending and taxes, and investment incentives biased in favour of domestic suppliers. At the same time, a 10 per cent surcharge on about 50 per cent of imports was imposed. Finally, the gold convertibility of the dollar was suspended.

[10] For an account of these events, see "Report of the Group of High-level Government Experts on the effects of the world inflationary phenomenon on the development process" (*Official Records of the Trade and Development Board, Eighteenth Session, Annexes*, agenda item 5, document TD/B/704).

[11] This issue is discussed in document TD/233, in the present volume.

[12] General Assembly resolutions 3202 (S-VI) of 1 May 1974 and 3362 (S-VII) of 16 September 1975.

its pattern. There was, of course, nothing new in this. The novelty lay in the realization that the post-war development of developing countries had rendered them an important economic force in the world economy and that those countries, when acting in unison, could effectively challenge the international system of production, distribution and pricing. In a deeper sense, the challenge of the 1970s was to bring the decision-making process regarding the working of an international economic system into line with the shifting balance of economic power. This is an issue of paramount importance to the stability of the world economy: a system that resists adapting its rules to changing economic realities and its decision-making to shifting balances of economic power is bound to be inherently unstable; and, conversely, an elastic system that allows itself to evolve in line with changing economic realities has a high probability of succeeding in reconciling conflicting objectives through balanced and stable growth.[13]

43. For a number of complex reasons the international community did not address the question of the management of the world economy in a broader context. Faced with immediate and serious problems, it focused on selected issues which, at the time, appeared to be the most pressing. Among these issues, the ones that stand out as more important from the point of view of the management of the system are the following: exchange rate policies; international financial intermediation and the question of external indebtedness; the multilateral trade negotiations; and the Integrated Programme for Commodities.[14] The role of transnational corporations in the world economy has also received attention from the international community. Certain aspects are being dealt with in ongoing negotiations related to restrictive business practices and the code of conduct for the transfer of technology. It is further envisaged that the code of conduct of transnational corporations currently under negotiation will encompass a number of these issues.[15]

44. The major feature of the monetary gradualism that was adopted after the completion of the work of the Committee of Twenty was the system of flexible exchange rates.[16] The proponents of the scheme argued that flexible exchange rates could provide an effective and nearly automatic mechanism for balance-of-payments adjustment. In addition, and perhaps more importantly, it was argued that this régime accorded individual economies a significant degree of insulation from world trends and thus conferred upon Governments a high degree of autonomy in pursuing national stabilization policies. The latter point was particularly attractive given the shaken confidence in the effectiveness of a collectively managed and co-ordinated international system. Thus flexible exchange rates were seen to provide both maximum benefits derived from an open economy and minimum surrender of autonomy in respect of national economic policies.

45. Events proved these expectations to be ill-founded. Changes in exchange rates affected expenditures and trade flows, if at all, with a time lag of one or even two years, and offsetting forces operating in the interim period often had a perverse effect on the balance of payments and the domestic economy. Moreover, exchange rate flexibility could not be effective in the absence of policy changes in the area of capital markets. With high mobility in the capital markets allowed to persist, exchange rate policies could be easily offset by speculative capital movements which, in turn, precipitate further changes in exchange rates—often in the wrong direction.

46. Apart from these factors, exchange rate flexibility could not be relied upon to effect the required shifts in expenditures and production when the response of real factors to changes in relative prices is limited, owing to structural and institutional rigidities. This posed serious problems to all countries whether in a surplus or a deficit position. The former were reluctant to let appreciation of their currencies erode their export competitive position, weaken profit margins in the trading sector and reduce levels of economic activity. For the deficit countries, depreciation of currencies led, more often than not, to accentuation of inflationary pressures which in turn rendered the attainment of structural adjustments even more problematic.

47. In order to cushion the impact of exchange rate changes on their domestic economies and trade positions, developed countries have increasingly resorted to protectionism in the form of import restrictions or export subsidies. This not only subverted the adjustment process but placed additional strains on the trading system.

48. The outcome of all these forces was that the flexible exchange rate régime led to currency instability, which in turn resulted in a cumulative disequilibrating process with depreciating countries caught in a self-reinforcing process exhibiting high rates of unemployment and inflation and surplus countries enjoying low inflation rates and increasing surpluses but at lower levels of economic activity.

49. The disenchantment of Governments with the flexible exchange rate régime has become apparent in recent months. The members of the European Economic Community have recently laid the foundations of a regional monetary system centred around stable parities among their currencies. In November 1978, the United States Government reversed its earlier position and, in co-operation with other major industrial countries, took a series of measures to arrest the declining trend of the dollar's external value. Both initiatives mark a departure from the earlier approach, and their ultimate success would very much depend on effective co-ordination of national macro-economic policies—a condition that the introduction of floating exchange rates was to minimize.

50. In the period 1974-1978 the problems in the area of finance were frequently the subject of headlines in the international press. Yet the international community did surprisingly little in this area. The view of capital market countries that the financial intermediation between surplus

[13] This, of course, has to remain a hopeful conjecture since the world economy has not as yet experienced the working of such an elastic system. Throughout human history the question of redressing imbalances between the relative weights in decision-making on the one hand and economic power or potential of nations on the other has not been resolved through peaceful means.

[14] See Conference resolution 93 (IV) of 30 May 1976.

[15] These were not the only issues of global significance but they appear to have been the ones on which global attention was focused.

[16] For a discussion of developments in the monetary field, see document TD/233, reproduced in the present volume.

and deficit economies might best be left to the private sector prevailed and the international community limited itself to the adoption of *ad hoc* measures designed to supplement the operations of private capital markets. Additional balance-of-payments facilities were established and the scope of existing ones was expanded with a view to improving the recycling of funds especially in respect of countries with limited access to capital markets. The financial intermediation worked remarkably well and played a major counter-cyclical role. But it was by no means faultless. The distribution of funds was extremely skewed, reflecting both market perceptions regarding creditworthiness and virtual stagnation of flows of concessional finance. As a result, the recycling process largely bypassed the low-income developing countries and particularly the least developed countries, which, in the event, bore a disproportionate burden of adjustment through cutting back their development programmes.

51. The longer-term stability of the financial system rested on a series of assumptions regarding developments in related areas. The recycling process was seen as one of a short-term nature and it was envisaged that debt repayments could be effected through increased export earnings induced by the recovery of the world economy, strengthening of commodity markets and improved access to markets. When the events of recent years cast doubt on the validity of these assumptions, the question of the stability of the financial system came to the forefront. The international community found itself unable to agree on measures to deal with this issue on a broad front and focused its attention on measures to alleviate the debt burden of the poorer developing countries and on the establishment of international rules and procedures for the reorganization of the debts of individual countries seeking such reorganization.[17] Notwithstanding the positive contribution that implementation of these measures would bring about, the problem is far from over. At stake is not merely stability in the financial area but the foundation of the existing rules in the fields of trade and payments.

52. The international community, and in particular the developed market-economy countries, gave priority attention to measures designed to safeguard the functioning of the trading system as reflected in GATT. An open and non-discriminatory trading system was seen not only as a powerful instrument for promoting international specialization and efficiency but as a pre-condition to the functioning of the monetary and financial system.

53. The launching of the multilateral trade negotiations within GATT was to further liberalize the trading system. These prolonged, complex and difficult negotiations, which are not yet fully completed, have been taking place under conditions of rising protectionism. By repeated "trade pledges" the OECD countries sought to discourage protectionist pressures and to highlight the risks of trade warfare that might ensue if restrictive trade policies were to become widespread. Nevertheless, protectionist measures by developed countries increased at an accelerated pace. Apart from the traditional trade limiting measures, new and complex forms, often evading GATT rules, were developed, such as "orderly marketing arrangements", "trigger price" mechanisms and "rationalization schemes".

[17] For a review of these measures, see document TD/234/Add.1, reproduced in the present volume.

54. The strain placed upon the balance of payments by the unsatisfactory adjustment process and higher levels of unemployment has undoubtedly contributed to the protectionist climate prevailing in most developed countries. Protectionist policies themselves, on the other hand, have introduced elements of inefficiency in the allocation of resources and thus tended to aggravate further the precarious conditions prevailing in the factor markets and the general price levels, and they have also made difficult the adjustment process in the partner countries.

55. Vigorous recovery can, no doubt, contribute to breaking this vicious circle, but it will not eliminate protectionist policies. It should be recalled that protectionism was on the rise when the OECD economies were operating on near full employment levels. One of the more important sources of this phenomenon is the increasing shift in emphasis in many OECD countries towards problems of economic security and equity in income distribution. At the same time, there have been pressures on the pricing mechanism stemming from structural factors as well as a narrowing in the spread of interindustry wage differentials.[18] Such factors have resulted in a reduced role being played by prices in the allocation of resources among sectors. These phenomena are at the root of the resistance in developed countries to maintaining access to their markets for the growing variety of manufactured goods exported by those developing countries that have broadly followed the development pattern of Japan in the post-war period.

56. The conclusion that emerges from the above is that, as in the case of the malfunctioning of the exchange rate system, the fundamental problem in the trading area lies in the inconsistency between the market-oriented rules of the game and the reduced role of market prices in determining allocation of resources within domestic economies. The case for revision of the rules of the trading system rests precisely on this inconsistency. While nothing concrete can be said at this stage regarding the broader framework of a viable trading system, it is clear that it would have to deal not only with commercial policies but also with questions relating to investment decisions and the allocative mechanism on a global scale.

57. An issue which is intimately related to the trading system and which came to be the focal point of the North-South dialogue is the need for strengthening the international commodity markets. While the international community agreed that the strengthening of these markets and the stabilization of the prices of primary commodities would greatly enhance the functioning of the international economic system and would confer benefits to both producing and consuming countries, the negotiations concerning the specific aspects of the Integrated Programme for Commodities have proved rather difficult. The agreement on the fundamental elements of the common fund[19] represents a major breakthrough in this area and will no

[18] For a discussion of the effects of structural factors, including oligopolistic market structures see *Official Records on the Trade and Development Board, Eighteenth Session Annexes,* agenda item 5 document TD/B/704.

[19] See "Report of the United Nations Negotiating Conference on a Common Fund under the Integrated Programme for Commodities on its third session (12 to 19 March 1979) (TD/IPC/CF/CONF/19), para. 12.

doubt provide stimulus to the conclusion of individual commodity agreements as well as to the completion of the other elements of the programme.[20]

58. It is noteworthy that of all major global issues regarding the shaping of the international economic system, the Integrated Programme for Commodities stands out as the only case in which structural changes in the market forces and in the decision-making process are involved. This is not unrelated to the fact that the negotiations have been carried out with the participation of all countries, with the developing countries being given the opportunity of full and active participation.

59. As was noted earlier, there is a growing awareness that the pendulum has swung too far towards reliance upon automatic market forces to restore balanced conditions in the fields of money, finance and trade. There is already evidence that Governments of developed market-economy countries are intervening more agressively in these areas. This, of course, gives additional significance to the need for co-ordination of government policies.

60. Review of the macro-economic policies of its members from the point of view of their mutual consistency has been a regular feature of the work of OECD. Since 1975, the co-ordination of these policies has been carried out in the context of annual meetings of the heads of State or Government of the seven major OECD countries. While these meetings have made an invaluable contribution to the understanding of the problems involved, it is a matter of record that the strategy set forth in the meetings did not fully materialize. As the strategy was concluded at the highest political level, the outcome cannot be attributed to insufficient commitment. The question that arises, then, is whether the fault might not lie in basic inadequacies of the traditional macro-economic policies in dealing with the structural problems that the summit meetings have acknowledged to exist in the economies of the major industrial countries. This possibility raises two further issues: first, in dealing with structural problems it is necessary to define explicitly the longer-term targets and to devise a package of short-term policies that is fully consistent with these objectives;[21] secondly, long-term structural changes cannot be meaningfully assessed in the absence of a global framework which would ensure consistency of objectives and requirements.

CHAPTER III

Towards effective arrangements for international economic co-operation

61. The major conclusion that emerges from the experience of the past is that the management of the economy in a multipolar world has failed, on the whole, to provide a credible strategy for global development. On the other hand, the problems facing the international community are novel and their solution would require novel mechanisms. Such mechanisms will have to evolve in practice.

62. In considering possible alternatives for action in the future, the past experience provides some useful insights, which are summarized below:

(*a*) While the interrelationship of problems in the areas of trade, money, finance and development are fully acknowledged, policy measures in each of these areas are taken, by necessity, in separate forums. In dealing with each one of these issues the assumptions made about developments or policies in the other areas have more often than not turned out to be unrealistic. An overview of the problems involved and alternative solutions in these interrelated areas would greatly facilitate the task of negotiating policy measures in each of these areas in a manner that would ensure consistency.

(*b*) Viable agreements require that the decision-making process reflect the economic interests of all the parties involved. Negotiations on global issues with limited participation have not had a credible record of achievement.

(*c*) There is a need to ensure consistency between the principles and rules governing the international economic system, on the one hand, and the changing character of the national economies, on the other. The present rules of the game appear to be based on assumptions about the functioning of national economies that are no longer valid, even in the case of major market-economy countries.

(*d*) In view of the persistence of structural and institutional rigidities in the national economies, the functioning of the international economic system may require less reliance upon market forces and more active involvement of Governments.

(*e*) The reconciliation of conflicting national economic objectives cannot be effected in a context of slow growth and structural disequilibria; it appears to require an agreed plan of action for restructuring the world economy and reducing the gaps in standards of living between countries through world growth and development.

(*f*) If a longer-term programme of action can be agreed, the co-ordination of short-term policies would be easier, since the latter would have to be considered in the light of their consistency with internationally agreed norms and long-term objectives.

63. An important question that arises from the above is that the international economy is unlikely to break away from the vicious circle of instability, recession, inflation and payments disequilibria without planned structural changes. The latter would require large investments on a world-wide scale which under current conditions cannot be spearheaded by the private sector or by a single country. It would need collective action by the entire international community. Such action would lower the threshold of uncertainty under which individual governments and markets are now operating and would set the stage for a cumulative process of global development.

64. The development of developing countries should be the focal point for such action. The investment requirements of these countries far exceed the resources that can be obtained through the existing channels. New mechanisms of resource transfers may be envisaged that would provide developing countries with the resources required, on appropriate terms and conditions, in order to accelerate

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[20] Progress on this issue is reviewed in documents TD/228 and Add.1, reproduced in the present volume.

[21] This, of course presupposes the working out of an indicative and perspective plan.

their development process.[22] This would not only serve to stimulate the levels of world demand in the short run but would provide a reliable guide for the establishment of complementary industries in the developed countries.[23]

The role of UNCTAD

65. The need for international co-operation to ensure that co-ordinated policy actions are taken at the global level in the interrelated areas of trade, payments, finance and development has been recognized and stressed in UNCTAD. This item has been on the agenda of the Trade and Development Board for several years and it has been the subject of discussion both in the Board and at the third and fourth sessions of the Conference.

66. At its third session the Conference adopted resolution 84 (III) in which, *inter alia,* trade and finance spheres should be resolved in a co-ordinated manner, taking into account their interdependence, with the full participation of developing and developed countries, and requested the Secretary-General of UNCTAD to consult the Managing Director of IMF and the Director-General of GATT and to report to the Board with a view to enabling it to consider the ways in which this co-ordination could be effected.[24] At its fourth session the Conference, in resolution 90 (IV), stated that among the main tasks performed by UNCTAD has been the reviewing, on a continuous basis, of the interrelated problems in the field of international trade and related areas of international economic co-operation with a view to ensuring an effective contribution, including recommendations, by UNCTAD to the co-ordinated solution of such problems.[25]

67. The Trade and Development Board, which has considered this issue on a continuous basis, has also addressed itself to the question of appropriate institutional arrangements within UNCTAD with a view to enabling it to carry out its mandate more effectively. At the first part of the fourteenth session, a draft resolution entitled "Interdependence of problems of trade, development finance and the international monetary system" was submitted by a number of countries on behalf of States members of the African Group. In paragraphs 3-5, the draft resolution called for the establishment of a high-level standing committee of the Trade and Development Board which would 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 would undertake consultations with parallel bodies in GATT and IMF with a view to facilitating co-ordination and co-operation with those bodies.[26]

68. Although the Board has not as yet taken action on that draft resolution, it adopted, on 23 October 1976, resolution 144 (XIV), in which it requested the Secretary-General of UNCTAD to keep under continuous review, (with the assistance of high-level experts appointed by Governments as appropriate, and in consultation with the Director-General of GATT and the executive heads of appropriate financial institutions), and to formulate recommendations for consideration and appropriate action by the Board. In pursuance of that resolution, the Secretary-General of UNCTAD convened a meeting of intergovernmental experts in June 1978, and he reported on their deliberations to the Trade and Development Board at its eighteenth session.[27]

69. In the light of the experience gained thus far, the question arises whether the task of the Trade and Development Board in dealing with the interrelated issues of trade, money and finance might not be enhanced by further improvements in the preparatory arrangements. In this connexion, the Conference may wish to consider the establishment of a high-level advisory group which will (*a*) examine the problems relating to the management of the world economy, especially policies in the fields of trade, payments and finance and their relationship to development, (*b*) assess the consistency of those policies with the longer-term development objectives and especially the development of developing countries, and (*c*) recommend for consideration concerted measures in those areas that would promote structural changes in the world economy and thus provide a favourable environment for sustained development at the global level. The reports of the advisory group would be submitted for consideration and necessary action to the Trade and Development Board, particularly at its ministerial sessions.

70. In order to be able to carry out its task effectively, the advisory group should be balanced both geographically and in terms of specialization in trade, development, monetary and financial matters. The members of the group, numbering perhaps 24 or so, could be nominated by the Secretary-General of UNCTAD in consultation with Governments and, in view of the importance of the tasks entrusted to them, their appointments could be confirmed by the Trade and Development Board. The heads of relevant international organizations or their representatives would participate in the meetings and could submit contributions or documentation for consideration by the group. The group, which would normally meet every six months, could be authorized to invite eminent persons and specialists to appear before it and give their views on particular agenda items. It could also be authorized to establish small working or study groups to examine in depth specific and technical problems that may arise. In general, the principles regarding the group's composition and work should be such as to ensure that its deliberations and reports to the Trade and Development Board would be well prepared, innovative and representative of the views expressed internationally and would carry conviction with member States.

71. Such a high-level group would enable the Trade and Development Board, especially at its ministerial sessions, to

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[22] See document TD/235, reproduced in the present volume.

[23] See document TD/230, reproduced in the present volume; and *The industrial policies of the developed market economy countries and their effect on the exports of manufactures and semi-manufactures from the developing countries* (United Nations publication, Sales No. 79.II.D.13).

[24] Conference resolution 84 (III), para. 7.

[25] Conference resolution 90 (IV), sect. 1, para. 1 (*a*) (iii).

[26] TD/B/L.360 (*Official Records of the General Assembly, Twenty-ninth Session, Supplement No. 15* (A/9615/Rev.1)), annex II.

[27] See *Official Records of the Trade and Development Board, Eigtheenth Session, Annexes,* agenda item 2, document TD/B/712.

take political decisions that would lead to significant improvement in the functioning of the world economy and help make the international economic system truly supportive of the development of developing countries. If the Conference endorses the need for such new global modalities of co-operation and establishes the institutional mechanism to give it operational meaning, then the fifth session of the Conference could prove to be a turning-point in the search for effective forms of international co-operation.

AGENDA ITEM 9*

DOCUMENT TD/226

Implications for developing countries of the new protectionism in developed countries

Report by the UNCTAD secretariat

[*Original: English*]
[*6 March 1979*]

CONTENTS

Introduction

(i) This report addresses itself to the problem of growing protectionism in developed market-economy countries that has arisen over the past few years. While traditionally such protectionist policies have been applied primarily to agricultural sectors, they have recently been progressively extended to industrial sectors. The main focus of the report is on the implications of this latter form of protectionism for the trade and developing countries.[1]

(ii) After describing the background to the growing protectionist trend, the report discusses the main features of protectionism, its changing emphasis and ramifications, the common interest in overcoming protectionism and the trade implications of the new protectionist measures for developing countries. The problem is then put into perspective through an examination of the two major underlying issues, namely, the inadequacy of the present international framework governing trade relations and the need for more fundamental structural change.

(iii) On the basis of this analysis, certain suggestions for short-term and long-term policies and actions to deal with the problem of the new protectionism are put forward. The short-term policy suggestions include the establishment of a policy framework aimed at, first, the negotiation of a set of principles and rules for safeguarding the export interests of the developing countries and, secondly, the introduction of surveillance activities and the carrying out of studies and technical assistance in connexion with non-tariff barriers which affect the trade of developing countries, based upon the maintenance by the UNCTAD secretariat of a comprehensive inventory of non-tariff barriers. The longer-term policies and actions address the underlying need to bring about structural change and include the formulation of a policy framework which would lead to the establishment of

* For the agenda, see vol. I, part three, para. 6.

[1] For a discussion of protectionism as it relates to agricultural commodities, see document TD/229/Supp.2, reproduced in the present volume.

negotiations, including provisions for sectoral consultations, to guide and promote the required international structural adjustments. Such a framework agreement could also include provisions for steps to be taken by the socialist countries of Eastern Europe to promote on a long-term, stable basis an increasing volume of imports of manufactured and semi-manufactured goods from the developing countries.

CHAPTER I

The problem of growing protectionism

A. Analysis

1. *Background*

1. Recently there has been a decided shift away from the relatively liberal trade practices which prevailed among developed market-economy countries during the better part of 30 years, to a generally protectionist attitude. The new wave of protectionism implies that a change in the character and emphasis of protectionism has taken place which includes the introduction of new protective devices. While government action in the form of non-tariff barriers was generally considered as a departure from the free-trade philosophy as embodied in the General Agreement on Tariffs and Trade, such protectionist measures have nevertheless continued to be used. Moreover, use of restrictive business practices by enterprises, a subject not covered by GATT or the Havana Charter,[2] has grown in importance.[3] Such protectionist measures have often been used discriminately, with or without government complicity or sanction, and have gradually become more important as tariffs were reduced in successive rounds of trade negotiations. With the onset of economic recession during the first half of the 1970s, recourse was increasingly had to protectionist measures as an immediate palliative to deal with more fundamental domestic economic problems such as growing unemployment. The increasing use of these measures has severely hampered the structural adjustments which were called for by international competitive forces. Although developing countries account for a small but growing share of world trade in manufactures, they have been disproportionately affected by such protectionist policies, on account of their generally less diversified industrial base and lower level of economic development.

2. In contrast to the past, when trade policy relations were governed by international rules, such as those laid down in the GATT framework, the new protectionist trends tend to circumvent such rules or operate under special exemptions from them. These new protectionist measures are both a reaction to, and a reflection of, the inadequacy of the prevailing rules and institutions to keep pace with the changing structure of international trade, as well as their failure to allow for changing economic, social and political conditions.

3. The factors underlying this recent growth in protectionism are many and complex. They tend to be related to the lagged convergence of several events, including: the hidden and/or neglected need for structural changes during the period of rapid growth of trade and production in the 1960s, when growth in the developed market-economy countries was sufficient to permit the expansion of exports and the absorption of increased imports resulting from trade liberalization; the international monetary crisis of the early 1970s, which led to the breakdown of the Bretton Woods system and to currency instability, affecting the major currencies; external payments imbalances, which contributed to increased uncertainty and speculation; and the continuing economic recession, with its consequent high levels of unemployment, particularly in labour-intensive sectors, where structural adjustment was overdue.[4]

4. Developing countries have gradually been making inroads into world markets in lines where they possess comparative advantages, primarily in labour-intensive manufactures and semi-manufactures. The consequent pressure for structural change in the import-competing sectors in developed market-economy countries has resulted in the application of selective forms of protection in affected sectors such as the voluntary export restraints imposed on cotton textiles since 1961, which, although deemed temporary, have continued in existence and even been widened. Such protectionist policies have since been extended to other sectors, often taking on new forms.

5. In contrast to tariffs, which initially distort the relationship between world and domestic prices but to which market adjustments can ultimately be made, non-tariff barriers, including restrictive business practices, tend to interfere continuously with the market mechanism by obstructing the shifts in trading patterns which are called for by changing comparative costs. In addition to distorting the allocative effects of the market process, such restrictive measures constrain or eliminate consumer choice, as well as competition between domestic and foreign producers, and introduce an element of arbitrariness into the decision-making process through the power of special interest groups to influence trade policy at the expense of general consumer welfare in developed countries. A further danger is that the practice is easily emulated by other sectors seeking such protection, which they attempt to justify on the basis of precedent. Indeed, there has recently been just such a sectoral spread of these new protectionist measures. Furthermore, as these devices prove effective in a single

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[2] See United Nations Conference on Trade and Employment, Havana, Cuba, 21 November 1947-24 March 1948, *Final Act and Related Documents* (E/CONF.2/78).

[3] For a further discussion of this subject, see "Annual report on legislative and other developments in developed and developing countries in the control of restrictive business practices, 1978, prepared by the UNCTAD secretariat" (TD/B/C.2/AC.6/15), paras. 41-43.

[4] These factors have been discussed at length in many recent publications. See in particular: "Growing protectionism and the standstill on trade barriers against imports from developing countries: report by the UNCTAD secretariat" (TD/B/C.2/194); R. Blackhurst, N. Marian and J. Tumlir, *Adjustment, Trade and Growth in Developed and Developing Countries*, Studies in International Trade, No. 6 (Geneva, GATT, 1979); Bahram Nowzad, *The Rise in Protectionism,* IMF Pamphlet Series No. 24 (Washington D.C., 1979); B. Balassa, "The 'new protectionism' and the international economy", *Journal of World Trade Law,* vol. 12, No. 5, September/October 1978.

country, the urge to emulate, along with the fear of trade diversion, encourages their adoption in other countries.

6. The importance which developing countries in particular attach to international trade as a means of supporting the achievement of their industrialization and development goals, as well as the need to rationalize the present world industrial structure so as to permit the achievement of these aspirations, have been reflected in a number of important decisions and resolutions adopted by the United Nations, such as the Declaration and the Programme of Action on the Establishment of a New International Economic Order,[5] the Lima Declaration and Plan of Action on Industrial Development and Co-operation[6] and various resolutions adopted by the United Nations Conference on Trade and Development.[7] All these reflect the recognized need for structural change in the world economy and for new economic relationships between developing and developed countries. In this context the new and growing protectionism cannot but be a cause of serious concern to the developing countries.

2. *Main features*

7. The most prominent feature of the new protectionism is its rapid growth during the past few years. It has been estimated that in the course of barely three years, from 1975 to 1977, import restrictions introduced, or seriously threatened, by developed market-economy countries have affected between 3 and 5 per cent, or roughly from $30 billion to $50 billion of international trade.[8] Though a part of this estimate relates to restraints on exports from Japan, it is apparent that a substantial proportion of the manufactured exports of developing countries (amounting to $40 billion in 1977) is now subject to these trade barriers. This growth in protectionism involved the increased use of measures under GATT rules on safeguard action, countervailing duties against subsidized exports, and anti-dumping charges. More importantly, there has been increased use of measures lying outside the scope of GATT in the form of "voluntary export restraints" and "orderly marketing arrangements", where the exporting sources "agree" to limit their exports, as well as new policies such as the extended anti-dumping procedures whereby trigger prices or minimum import prices are applied in the iron and steel sector. Moreover, these measures are not subject to scrutiny by international surveillance bodies or governed by international agreements. The new protectionism tends to be of a markedly selective nature and, when aimed at developing country suppliers, generally takes advantage of the weak bargaining power of these countries and consequently generates terms which favour the short-term interests of the importing developed countries.

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

[6] Adopted at the Second General Conference of UNIDO, held at Lima, Peru, from 12 to 26 March 1975 (ID/CONF.3/31, chap. IV).

[7] See *inter alia,* Conference resolutions 91 (IV) and 96 (IV).

[8] See "The future of world trade", address by Olivier Long, Director-General of GATT, to the Zurich Economic Society, press release GATT/1199, 9 November 1977, p. 3.

8. The products affected by such measures include both the traditional labour-intensive products, such as cotton and non-cotton textiles and clothing, footwear and leather and the newer products in which developing countries are beginning to build up production capacity, such as iron and steel products, transportation equipment, including shipbuilding, mechanical and electrical engineering goods, consumer electronic products, ball-bearings, dry-cell batteries and, most recently, pulp, paper and wood products and machine parts and tools. As many of the capital-intensive products are not yet exported on a large scale by developing countries, protectionist measures in these sectors have largely originated in developed market-economy countries and been directed against other such countries. However, developing country suppliers are increasingly being singled out as targets for protectionist measures, and given their generally low level of industrial diversification, virtually all sectors of substantial export interest to developing countries are now subject to restrictions of one form or another.

3. *Changing emphasis in protectionism*

9. In addition to the growing unilateral imposition of traditional non-tariff measures, such as quotas, licensing, and surveillance schemes, greater use is being made of "voluntarily" undertaken or negotiated export restraints. This represents a shift from traditional trade restrictions imposed by the importing country to export restrictions undertaken by the supplying country or countries under direct or indirect pressure and reflects to some extent the changed world trading conditions of the 1970s compared to the earlier growth period of the 1960s, as well as changes in governmental intentions in the commercial policy field. Pressures brought about by the rapidly changing economic events of the early 1970s have caused a subtle change in trade philosophy, revealed by the increase in protectionist measures with the overt support of Governments. Illustrative of this changing atmosphere are the suggestions currently being made concerning "organized trade", which imply a generalized retreat towards protectionism. While this concept has not been fully elaborated upon, some of its main features can be foreseen. Organized trade would envisage market-sharing arrangements at the sectoral level under a global umbrella which would limit, to specified levels, imports into individual developed countries of sensitive, highly competitive goods. The arrangements would seek to prevent an increase in domestic unemployment in particular sectors by giving domestic industry time to adapt to changed competitive conditions through curbing disruptive or "unfairly priced" imports, principally from low-wage developing countries.

10. Protective measures applied outside GATT have largely taken the form of "voluntary export restraint agreements" or "orderly marketing arrangements". The negotiations are carried out bilaterally, thereby giving the advantage of negotiating flexibility to the generally more powerful importing country. The unequal bargaining power of the partners involved in the negotiations on such selective restraints is particularly detrimental to developing countries, who are often very dependent upon the export item in question and have little or no political and economic power to resist such pressure.

(a) *Voluntary export restraints*

11. The main objective of voluntary export restraints is to avoid actual or threatened disruption of the internal market of the importing country. The products subject to restraint arrangements are often labour-intensive and low-price, so that many of the adversely affected countries are developing countries. In recent years, at the instigation of importing developed market-economy countries, voluntary export restraints have assumed considerable importance as commercial policy devices; not only have they been more widely used, but also, and more importantly, the volume of trade affected by them has increased, as has their aggregate impact on world trade.[9]

12. The declared objective of voluntary export restraints is to halt or regulate the growth of exports in order to safeguard the position of high-cost domestic suppliers in the importing country. To the extent that they are temporary, they may be regarded as instruments enabling domestic producers to adjust to the changing structure of international competition and facilitate the resumption of more competitive trade flows. If, however, the restraints remain in force for a protracted period, they tend to protect inefficient industries and may have the effect of eventually strengthening their position rather than facilitating structural adjustments. Another aspect of voluntary export restraint agreements is that of trade diversion. Imports from sources not subject to export restraint are likely to increase rapidly as importers make their additional purchases from such sources and exporters in these countries seek to increase their market share in the importing country. Third countries, including minor developing country suppliers, may benefit in the short run from restraint agreements if they are not themselves the target of such measures, but in the longer run, as their exports grow to displace those from restrained suppliers, they too are likely to come under pressure to restrain them. Thus, voluntary export restraints cause trade diversion which may in the long run be detrimental to the interests of developing country suppliers.

(b) *Orderly marketing arrangements*

13. While the extent of government involvement in voluntary export restraint agreements varies, in the case of orderly marketing arrangements it is explicit and formal, with specific agreements being negotiated between exporting and importing countries. Under such agreements the exporting country agrees to restrict to specified levels its exports which are causing or threatening to cause serious injury to the importing country's industry. The arrangements aim at moderating the disruptive effects of increased imports of products at highly competitive prices. Orderly marketing arrangements have economic implications for international trade similar to those of voluntary export restraints, particularly for the trade of the developing countries. They inevitably capitalize on the relatively weak bargaining position of the developing countries in bilateral trade negotiations. Although intended to be temporary, they may take on a more permanent character, freeze existing trade patterns and discourage adjustment in accordance with shifts in international comparative advantage. Moreover, the danger of their extension to other products is always present.

(c) *Extended anti-dumping procedures*

14. Apart from trade-restrictive measures in the form of voluntary export restraints and orderly marketing arrangements, there are more subtle policy measures affecting international trade that have been put into effect or are being contemplated. One of these novel measures concerns the extended anti-dumping procedures in the form of trigger prices or minimum import prices for iron and steel products put into force by the United States and EEC in 1978. These devices, designed to facilitate anti-dumping investigations through a system of "guideline" prices introduced to monitor imports of iron and steel products being sold at below base-price level, affect the exports of only a few developing countries at present but are nevertheless of concern since they might create a precedent for application of similar import restrictions to products in other sectors in which the developing countries have a current substantial export interest.

4. *Common interest in overcoming protectionism*

15. The new protectionism affects adversely all countries participating in world trade. The growth in world trade and its contribution to economic growth, particularly in the developed countries, over the past 20 years is generally well documented. What is generally not so well recognized is the important counter-cyclical role which trade with developing countries played in supporting the industrial economies during the recession that set in after 1973, in as much as the extremely high import propensities of developing countries for manufactures and capital goods generated a marked increase in the trade surplus for such products in developed countries. For manufactures and semi-manufactures as a whole (excluding unwrought non-ferrous metals and refined petroleum), exports from developed market-economy countries to developing countries and territories in 1977 amounted to $125 billion (23 per cent of their total exports to the world of these products) of which machinery and transport equipment accounted for $76 billion. Trade in the opposite direction amounted to about $32 billion (7.5 per cent of developed market-economy countries' total imports of manufactures and semi-manufactures).[10]

16. The supporting role of the developing countries during the recent recession is shown by the fact that they accounted for 30 per cent of the increase in the value of developed market-economy countries' total manufactured exports from 1973 to 1977, in contrast to only 15 per cent of the increase from 1962 to 1973, which was a period of unprecedented growth of international trade. For machinery and transport equipment, the contribution of the developing countries to the export growth of the developed market-economy countries was, during 1973-1977, as high as 35 per cent. The increase in such

[9] It is estimated that the volume of trade affected by voluntary export restraints, not including the Arrangement regarding International Trade in Textiles, on such products as specialty steel, carbon steel, television sets, radios and calculators, was more than $2 billion in 1976. See T. Murray, W. Schmidt and I. Walter, "Alternative forms of protectionism against market disruption", *Kyklos* (Basel), vol. 31 (1978), fasc. 4.

[10] Figures tabulated by the UNCTAD secretariat on the basis of data from the Statistical Office of the United Nations.

exports to developing countries of $48 billion was more than 10 times as large as the concomitant increase in developing countries' exports of these products to the developed market-economy countries. The only areas in which the industrialized countries incurred a trade deficit with developing countries in 1973 and 1977 were in labour and resource-intensive sectors, such as processed food, wood products, leather, clothing and footwear, where the developing countries have a demonstrated comparative advantage.

17. As these figures suggest, the developing countries have become an increasingly important link in the world trading system by virtue of the changing composition and volume of their exports and of their demand for imports. In the absence of trade restrictions, they can be expected to continue providing an increasing stimulus to growth in the developed countries. Without the provision of liberal access to the markets of the industrial countries, developing countries will not be able to earn the foreign exchange and establish the creditworthiness necessary for maintaining a growing volume of imports of manufactures and capital goods from developed countries. Likewise, if the developed countries persist in protecting their economies against imports of manufactures from the developing countries they will restrict an important source of their own potential economic growth.

18. To the extent that the new protectionist measures are taken to protect declining and inefficient labour-intensive industries in developed market-economy countries, such measures affect economic growth and progress both in those countries and in developing countries, by holding back the structural change called for by the international division of labour. In general, protectionist policies in developed countries, *inter alia*, retard the shift to higher-technology industries, where there is the possibility of higher productivity and value added per worker, reduce the counter-inflationary impact offered by lower-cost imports of both manufactured inputs and finished products, deny their consumers access to a variety of lower-priced goods and, by forcing an inefficient allocation of resources, significantly add to the eventual cost of required structural adjustments. The effects on the industrialization efforts of the developing countries are probably even more severe, owing to their limited industrial base as a consequence of which the expansion of a small number of exports is often their most important catalyst for economic growth and provides a major source of finance for their vitally needed imports of manufactures and technology. The use of protectionist measures thus tends both to perpetuate the existing structure of trade and division of labour and to impose constraints on the development process by denying developing countries the means to expand their exports to the developed countries.

5. *The job displacement argument for protectionism*

19. While there are many arguments used in defence of protectionism, the major one is related to unemployment. The job displacement argument used to support trade restrictions in particular sectors is politically appealing but does not have empirical support. Available evidence on the effects of imports on job displacement clearly indicates that imports have a very small effect on employment; imports from developing countries have an even smaller impact, given the generally negligible extent of import penetration by developing countries. For example, it has been estimated that jobs lost in the United Kingdom footwear industry during 1970-1975 due to net import penetration amounted to only 0.4 per cent of the industry's labour force, and in the clothing industry, where the loss of jobs was proportionately highest, to 1.7 per cent. Also, it has been found that in no labour-intensive sector, except men's shirts and suits, did output suffer from import growth. The reduction of output in some sensitive sectors, i.e., woven cotton, television sets and footwear, was not due to imports but rather to poor export performance.[11] In general, it would seem that the most serious problem in this respect is not the existence of unemployment in the developed countries, or even its magnitude, but its concentration in certain regions. In that case the optimal solution is in the context not of measures directed at influencing trade flows but rather of a regional policy which places sufficient emphasis on adjustment assistance measures of the right kind.[12]

20. Other evidence suggests that job displacement due to import competition is relatively small when compared to the effect of technological change. Studies by the ILO indicate that a total elimination of trade barriers on imports from developing countries would cause only a 1.5 per cent decrease in manufacturing employment in developed countries during a period of five to ten years, whereas the annual displacement of labour amounts to 3 to 4 per cent as a result of the technological change associated with increases in productivity.[13] These findings are supported by a study covering the period 1963-1971 in the United States. "The loss in job potential in import-competing industries due to foreign trade has averaged about 44,000 jobs per year—about 0.2 per cent of total United States labour force. The loss of job potential due to increased labour productivity was about six to nine times as great as the loss due to foreign trade in import-competing industries".[14] It should be noted that only one half of this estimated loss was attributed to imports from developing countries.

21. The introduction by developed countries of trade-restrictive measures designed to protect employment in import-competing sectors generally has the effect of causing a loss of employment elsewhere, especially in the capital-intensive export sectors.[15] Measures to preserve jobs in declining manufacturing sectors in the industrial countries,

[11] See *ODI Review* (London, Overseas Development Institute), No. 2, 1977, pp. 40-41.

[12] For a discussion of this subject see the report by the UNCTAD secretariat, *Adjustment Assistance Measures* (United Nations publication, Sales No. E.79.II.D.4).

[13] C. Hsieh, "Measuring the effects of trade expansion on employment: a review of some research", *International Labour Review*, vol. 107, No. 1 (January 1973).

[14] C. R. Frank Jr., with S. Levinson, *Foreign Trade and Domestic Aid* (Washington D.C., The Brookings Institution, 1977), p. 36.

[15] "If safeguarding jobs is given as a justification for import restrictions, it is, on the other hand, necessary to calculate the number of jobs which can be maintained in the exporting industries by not resorting to import restrictions". Statement by the Federal Minister of Economics before the Parliament of the Federal Republic of Germany on 23 February 1978 (*Bulletin des Presse –und Informationsamt der Bundesregierung*, No. 18, 25 February 1978, p. 155).

at the expense of the exports and the industrialization of the developing countries, tend at the same time to reduce the exports of the sectors which should be expanding in the industrial countries themselves.[16] Thus, the adoption of protectionist trade policies, justified on the erroneous argument that labour in import-competing industries will be permanently displaced, acts in effect to support sectors which would, in the absence of such restrictions, release labour to high-productivity sectors.

B. The problem in perspective

1. *Inadequacy of the present international framework governing trade relations*

22. The preceding analysis points to two major problem areas which deserve attention in the search for solutions to the problem of the growing new protectionism. The first concerns the inadequacy of the present institutional framework governing international trade. Recognition that the existing rules no longer provide an adequate basis for the conduct of international trade could lead to short-term and medium-term policy approaches designed both to check the current wave of protectionism and to establish new and more meaningful rules which take into account the realities of the current world trade situation. The second and more fundamental problem area concerns the need for structural adjustment in developed countries to bring about an optimal international division of labour. This problem has to be viewed in a long-term perspective and its solution requires an appropriate international policy framework.

23. The inadequacies of the present institutional negotiating machinery and arrangements as a framework for coping with the basic problem of the conduct of international trade have become increasingly clear as new protectionist measures and pressures have mounted. They are most evident where the new measures directly circumvent existing rules governing international trade. Despite the importance of the developing countries in world trade and their representation in various international forums concerned with world trade, they tend to play only a nominal role in the important deliberations taking place therein.

24. It is not necessarily by design that the developing countries are relegated to a relatively ineffectual role; this results rather from the application of international trading rules enforced by such multilateral bodies. For example, the provisions of GATT are based on the principle of non-discrimination which underlies the most-favoured-nation clause and reciprocity in trade relations. Despite intentions such as those expressed in the Tokyo Declaration,[17] which pledged special and differential treatment for developing countries and the maintenance and improvement of the GSP,[18] it is clear that the outcome of the Tokyo Round will be determined on the basis of reciprocity between those developed countries which account for the bulk of world trade and, consequently, have the greatest bargaining power. The developing countries (and many developed market-economy countries as well), while nominally full partners in the multilateral trade negotiations, will play only a minor role in determining the outcome of the negotiations, and the advantages accruing to them will by and large be a by-product of concessions negotiated by others. This outcome can be expected despite the important role the developing countries are recognized to play, individually and collectively, in world trade in general, and despite in particular their increasingly vital role as suppliers to the developed market-economy countries. Thus, rules designed for an earlier period, and which do not entirely reflect the reality of the changed structure and distribution of world trade flows, will determine the outcome of the multilateral trade negotiations.[19] These rules have also circumscribed the very issues under consideration in the negotiations. Although wider in scope than in previous rounds, the current multilateral trade negotiations do not sufficiently cover non-tariff barriers to trade, which are for the most part the foundation of the new protectionism.

25. As is generally agreed, attention needs to be given to issues raised by the new protectionism, namely, the elimination of non-tariff barriers, the formulation of more appropriate and efficient adjustment assistance measures and, most importantly, the need for long-term structural adjustment in the developed countries. Existing international agreements and institutional arrangements have proved inadequate in this respect. Furthermore, the issues dealt with in the multilateral trade negotiations, which were decided upon in 1973, have been overshadowed by the rise and changing emphasis of the new protectionism which has evolved during the course of the negotiations.

2. *The need for structural change*[20]

26. Technological progress and structural change are essential factors in economic growth. Until the early 1970s, structural change in the developed countries occurred at a vigorous pace largely as a reaction to the unprecedented growth in trade among the developed market-economy countries in industrial products. While the timing of such structural changes was related to short-term cyclical considerations and other domestic factors, the role of mutual trade interests among these countries played a central and positive role in bringing about such structural adjustments. By contrast, the interbranch character of trade in manufactures between developing and developed countries, and particularly in labour-intensive lines of production, has not generated similar incentives for industrial restructuring and has, on the contrary, created protectionist pressures aimed at protecting local industries from import competition. As has been explained above, the change in the relative importance of the developing countries in world trade in manufactures, particularly with the developed countries, requires a new international division of labour and attend-

[16] See *National Institute Economic Review* (London), No. 83, February 1978, p. 35.

[17] Declaration of Ministers approved at Tokyo on 14 September 1973–i.e. prior to the global recession and prior to the recent wave of new protectionism. For the text, see GATT, *Basic Instruments and Selected Documents, Twentieth Supplement* (Sales No. GATT/1974-1), p. 19.

[18] The GSP is based on a notable exception to the principle of reciprocity and the MFN clause.

[19] For a more detailed review of the problems arising from the inadequacy of the existing trading rules see document TD/224, reproduced in the present volume, chap. III.

[20] See also the discussion of the problem of structural change in chapter II of document TD/224, reproduced in the present volume, and in document TD/230, also reproduced in the present volume.

ant structural changes which would both reflect the realities of the current trading patterns and production capabilities of the developing countries and promote their trade and industrialization over the longer term.

27. The inclusion of the question of protectionism as a separate subitem of the agenda of the Conference testifies to the importance attached to the question by member States. The danger of a continuation of this trend to all countries participating in world trade requires that a co-ordinated international programme of action be agreed upon and implemented. Given the common interest of developed and developing countries in this matter, attention must be focused on the formulation of policies which will halt (or even reverse) the trend and simultaneously provide co-ordinated mechanisms for facilitating the required structural adjustments. It is evident that such structural adjustments are not likely to come about simply as a result of the normal working of market forces; rather, positive and concerted action by Governments will be needed.

28. Against this background, a framework for providing an effective approach to global problems, such as the relationship between the management of international trade, the restructuring of world industry and a more appropriate international division of labour, is suggested in the following two chapters.

CHAPTER II

Short-term policies and actions to deal with protectionism

A. Over-all objectives

29. Policies to reduce or eliminate the deleterious effects of restrictive trade measures must take into account that the causes of protectionism, and its implications, are many and complex. In analysing the causes, effects and implications of the "new" protectionism the previous chapter focused on the growth of the new trade restrictive measures and their changing emphasis, their selective and sector-specific nature, the common interests of developing and developed countries, the inadequacy of the existing international trading rules and, most importantly, the need for structural change in the developed countries. While it is not possible to make a rigid distinction between short-term and long-term policies, since even short-term policies will have long-term effects, the short-term effects of the new protectionism on world trade require that policies and actions be devised not only to check the current rise in protectionism but also to complement the longer-term policy measures.

B. Principles and rules to safeguard the trade of developing countries

30. Given the spread and growing extent of the new forms of protection, the failure of the various standstill pledges made in recent years and the widespread circumvention of the existing international trading rules, the Conference may wish to consider reaching agreement on the need for the early adoption of a set of principles and rules aimed specifically at safeguarding the export interests of developing countries.

31. Even in times of rapid trade expansion, temporary import restrictions may be invoked on account of special circumstances affecting particular sectors in developed countries. When, as at present, conditions in world trade give rise to strong pressure for protectionist policies (which need to be controlled), it is even more important to establish guidelines to ensure that protective trade measures are not applied to sectors in which market disruption cannot directly be linked to injury caused or threatened by imports from developing countries. The very acceptance of such a set of internationally agreed principles and rules could provide Governments of developed countries with valid arguments to counter unjustifiable pressures in favour of such restrictions.

32. Such principles and rules could include the following:

(*a*) Restrictions on imports should not be extended to imports from developing countries unless it can be demonstrated that domestic market disruption has resulted exclusively from such imports;

(*b*) Any such restrictions imposed should be regarded as of an emergency nature for a specific sector, and should be preceded by a period of notice and by consultations with the developing country suppliers concerned;

(*c*) The restrictions should be gradually relaxed, over an agreed period, and should preferably allow for some growth of imports from the countries affected;

(*d*) They should be accompanied by appropriate adjustment assistance measures;

(*e*) Adequate compensation (in one form or another) should be provided to developing countries for loss of markets due to the new restrictions.

C. Surveillance activity based on a comprehensive inventory of non-tariff barriers

33. One of the biggest obstacles to a better understanding of the nature and implications of the new protectionism is the lack of accurate information on the nature and effects of the various non-tariff barriers in use. The availability of a comprehensive up-to-date inventory of such information, particularly when supplemented by the relevant information on trade flows, could provide a better basis upon which to evaluate the effects of such restrictions on the trade and economic development of the developing countries. It would also facilitate the adoption of appropriate policies and measures to prevent recourse to protectionism and to eliminate existing trade restrictions.

34. In view of the importance of such an inventory, and of previous decisions taken in UNCTAD in this area,[21] the Conference may wish to request the UNCTAD secretariat to expand the coverage of its existing data bank in order to

[21] Committee on Manufactures decision 2 (III) of 18 October 1968 (*Official Records of the Trade and Development Board, Eighth Session, Supplement No. 2* (TD/B/199/Rev.1), annex I); decision 1 (IV) of 30 January 1970 (*ibid., Tenth Session, Supplement No. 2* (TD/B/295), annex I); decision 1 (V) of 14 May 1971 (*ibid., Eleventh Session, Supplement No. 2* (TD/B/352), annex I).

provide a comprehensive and up-to-date inventory of non-tariff barriers. This inventory should go beyond the information currently notified to GATT in pursuance of its relevant provisions or notified for the purposes of the multilateral trade negotiations by countries affected by such non-tariff barriers. The inventory should include any measure which has a restrictive effect on developing country trade. To this effect, the assistance of both developed and developing countries would be vital to the secretariat for the identification of obstacles to trade and the establishment and maintenance of such a comprehensive inventory.

35. The main purpose of such an extended and up-to-date inventory would be to form the basis for an UNCTAD surveillance system to monitor the observance of agreed principles and rules designed to safeguard the export interests of the developing countries. The system could be designed to report periodically on protectionist trade measures as they are put into effect, and thereby provide a check on the observance of the principles and rules where temporary trade restrictions on exports from developing countries are imposed. In this connexion, consideration might also be given to the creation of a mechanism which would deal with those restrictions which have a serious impact on the trade of developing countries and which would need to be dealt with urgently. Such a comprehensive inventory could also serve:

(*a*) To support the long-term approaches to the problems associated with protectionism, for example, by providing the relevant inputs to the proposed sectoral consultations discussed in the following chapter;

(*b*) To provide a data base for in-depth studies on specific problems and background material for (*a*) above;

(*c*) To support the provision of technical assistance and advisory services to individual developing countries and to regional groupings of developing countries on broad trade policy issues and, in particular, on problems related to access to markets.[22]

CHAPTER III

Long-term policies and actions to deal with protectionism

A. Long-term framework agreement

36. To a large extent, the short-term policies and actions suggested in the previous chapter are designed primarily to deal with the immediate symptoms of protectionism and to create an atmosphere in which longer-term measures can simultaneously be considered and implemented. The present chapter provides suggestions for a longer-term framework agreement for consideration by the Conference.

37. Such a framework agreement could include, in addition to the shorter-term measures mentioned in chapter II, a set of general principles to govern and guide longer-term policies for promoting structural adjustments. Such principles could stress the need for the developed market-economy countries to examine existing trade restrictions on imports from developing countries with a view to their reduction and ultimate elimination and concurrently to identify those areas where structural adjustments are required and formulate and introduce the necessary remedial long-term policies. An advantage of international co-ordination of measures to promote longer-term structural change in the industries of developed market-economy countries is that it would eliminate the possibility of trade diversion and equalize net transitional costs of such structural changes among developed market-economy countries. The principles would also need to be pragmatic and, where appropriate, make allowance for the difficulties of developed market-economy countries in accelerating the adjustment process in a period of slow over-all growth. An agreed period of transition could be envisaged during which Governments would provide incentives for firms and workers to move from uncompetitive lines of production to more efficient ones, as well as make provisions to allow specific products from developing countries a rising share of the domestic market as the structural adjustment process unfolds.

38. Consideration might also be given to formulating and incorporating, within the longer-term framework agreement, principles which could govern the use of adjustment assistance measures in support of the long-term restructuring and trade liberalization policies. Suggestions for more effective adjustment assistance policies and programmes in the developed market-economy countries might include the following:

(*a*) Positive adjustment assistance policies should form an integral part of a programme of concerted action for more sustained and balanced growth of the world economy.

(*b*) Adjustment assistance policies should be integrated into national economic policy so as to ensure that no contradictions exist between different policy programmes.

(*c*) Action taken by Governments in support of industries in difficulty should be temporary in nature and should, wherever possible, be reduced progressively according to a pre-arranged time-table. Such action should be linked to the implementation of plans to phase out excess capacity and re-establish financially viable entities.

(*d*) A dynamic element should be introduced into adjustment assistance programmes in order to make them more responsive to changing economic conditions and enable them effectively to promote industrial restructuring.

(*e*) An anticipatory approach to adjustment assistance policies should be adopted, so as to facilitate the orderly movement of labour or other factors from industries or lines of production affected or threatened by import competition to other activities.

(*f*) Adequate provision should be made for workers' benefits, retraining, job search and relocation programmes, and fiscal and other incentives to firms should be made available in an expeditious manner in adjustment assistance programmes.

(*g*) Effective institutional arrangements should be established, and appropriate national agencies created, to implement adjustment assistance policies and to provide facilities for sectoral or industrial studies.

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[22] For a further discussion of these proposed technical assistance activities, see document TD/227, reproduced in the present volume.

(*h*) Adjustment assistance policies should be linked with the industrialization needs of the developing countries and thereby help to promote economic co-operation between the developing and the developed countries.

B. Sectoral approach

39. The longer-term framework agreement could include provisions whereby the socialist countries of Eastern Europe would give consideration to intensifying their policies and measures aimed at increasing their imports from developing countries and at including the relevant provisions in their national economic development plans for providing an increasing volume of imports from the developing countries, especially in processed and semi-processed forms. In the light of the evolving international division of labour, the socialist countries of Eastern Europe might also give consideration, where appropriate, to carrying out on a long-term, stable basis, structural changes in favour of developing countries, on mutually acceptable terms, in those branches of their national economy in which the comparative advantage lies with the developing countries.

40. Given the sector-specific nature of the application of protectionist measures and the better understanding of the trade-related and structural problems by those involved at the sectoral level, the Conference may wish to consider instituting a sectoral approach for examining and formulating action programmes to overcome protectionism through the identification of the links between international trade and structural adjustment problems in particular sectors. Multilateral consultations on a series of individual sectors on products and product groups of particular export interest to developing countries could provide an opportunity for participants to identify and examine specific problems unique to each sector and to reconcile their respective interests.

41. The adoption of a long-term framework agreement and principles, such as suggested above, could provide the general guidelines for governing the deliberations and approaches used in each sector consultation undertaken while addressing problems unique to each particular sector. Each consultation should be guided by two broad principles, namely, the need to phase out existing trade restrictions and the need to implement the structural changes required to accelerate the industrialization process in the developing countries. One of the means for achieving these joint goals may be the promotion of intra-industry specialization between developing and developed countries. This system has been the driving force in trade in manufactures among the countries of Western Europe, as well as a predominant feature of trade between Western Europe and socialist countries of Eastern Europe over the past 15 years.[23] This sectoral approach could make an important contribution to bringing about compatibility between the dynamics of industrial growth in developed countries and that in developing countries. The sectoral approach could lead to mutually beneficial trade expansion between developed market-economy countries and developing countries by providing a basis for consideration of the removal of trade barriers and protectionist industrial policies which inhibit structural change in each sector. Such sector consultations between the socialist countries of Eastern Europe and the developing countries could also strengthen the national industrial potential of the latter countries through arrangements on trade, economic and technical co-operation.

42. The proposed sectoral consultations should be as broad in scope as possible. They should examine and generate comprehensive and complementary policy proposals which go beyond commercial policy and include consideration of all related aspects of rationalizing trade and production in each sector, such as industrial policies, investment incentives, establishment of sector-specific trade targets, adjustment assistance measures, industrial collaboration policies, and export incentives and promotion. Each sectoral consultation should include all interested parties, as well as participants from other related and tertiary sectors whose interests may be affected. In view of the close relationship between trade in manufactures and industrialization, it would be important to secure close co-operation with UNIDO in the sectoral consultations, including joint action where appropriate. The expertise of other bodies, such as the United Nations Centre on Transnational Corporations and the regional commissions, should be sought, where relevant.

43. In compliance with the over-all guidelines set out in a framework agreement, each sector consultation could attempt:

(*a*) To analyse the evolving structure of trade and the principal obstacles and barriers to the exports of developing countries;

(*b*) To identify the underlying structural problems;

(*c*) To seek appropriate policies to overcome identified difficulties in individual sectors, within the context of the general guiding principles;

(*d*) To establish a time-frame within which such integrated policies should be implemented;

(*e*) To devise measures of surveillance to ensure that the modalities agreed upon are adhered to.

[23] See document TD/230, reproduced in the present volume.

DOCUMENTS TD/227 AND ADD.1

Multilateral trade negotiations. Evaluation and further recommendations arising therefrom

Report by the UNCTAD secretariat

*DOCUMENT TD/227***

[*Original: English*]
[*2 April 1979*]

CONTENTS

* Incorporating document TD/227/Corr.1.

Introduction

1. The main purpose of this report is to assist the United Nations Conference on Trade and Development in its evaluation of the multilateral trade negotiations and in the formulation of further recommendations arising therefrom. The report analyses the range of issues of serious concern to developing countries in the various areas of the negotiations and their implications for the trade of these countries.

2. The stated over-all objectives and commitments of the developed countries in the Declaration of Ministers approved at Tokyo on 14 September 1973 (Tokyo Declaration)[1] to liberalize world trade, to provide a more favourable framework for the conduct and expansion of international trade, and to secure additional benefits for the international trade of the developing countries through a substantial improvement in the conditions of market access for the products of interest to those countries through, wherever appropriate, measures designed to attain stable, equitable and remunerative prices for primary products, represent the principal benchmarks against which the results of the negotiations have been assessed.

3. The report attempts a preliminary evaluation of the static and dynamic effects of the tariff negotiations, particularly on the generalized system of preferences (GSP), and includes tentative estimates of the net losses or gains in trade expansion resulting from the erosion of GSP margins and MFN tariff cuts on non-GSP products. The results of the negotiations in tropical products are also analysed, particularly as regards the extent to which developing countries' requests have been met with corresponding offers.

4. A brief analysis is made of the main provisions and implications of the draft codes or texts under negotiation of particular interest to the developing countries, e.g. those on non-tariff measures: import licensing procedures, customs valuation, technical barriers to trade, subsidies and countervailing measures and government procurement, as well as safeguards and framework for the conduct of international trade. An evaluation is made of the extent to which the specific proposals of the developing countries have been taken into account or remain outstanding in these areas.

5. The final chapter discusses the follow-up action (including that of UNCTAD) that would need to be taken in the aftermath of the multilateral trade negotiations to enable the developing countries to achieve fully the agreed objectives of the negotiations and to further improve access for their exports to markets in the developed countries.

6. Owing to its timing, the evaluation in the present report is of a preliminary character only, in view of the fact that, apart from a number of bilateral accords on some principal issues, agreement has yet to be reached on specific questions before the over-all package is finally concluded.[2] Moreover, a large number of technical details will have to be worked out concerning the operational and institutional aspects of the various codes, agreements or arrangements.

7. The fifth session of the Conference provides an important opportunity to review and evaluate the results so far achieved in the multilateral trade negotiations in the context of their stated objectives. In this connexion, the Conference may wish to consider to what extent the aims and objectives, as well as the relevant United Nations and UNCTAD resolutions, have been fulfilled, with a view to making further recommendations to help ensure that these goals are fully achieved. The Conference might also consider further steps that may be taken after the conclusion of the negotiations on outstanding trade and related issues of concern to the developing countries.[3]

CHAPTER I

The multilateral trade negotiations: aims, objectives, coverage and organizational structure

8. In the intervening years between the conclusion of the Kennedy Round in 1967 and the launching of the multilateral trade negotiations in 1973, the developing countries pressed within GATT and UNCTAD for an improvement in the access of their exports to the markets of the developed countries through the liberalization of tariff and non-tariff barriers. Hence, although not involved in the decision to undertake comprehensive trade negotiations under GATT's auspices, the developing countries agreed to participate in the present multilateral trade negotiations with high expectations that the negotiations would enable them finally to realize substantial benefits for their international trade.

A. Aims and objectives

9. As set out in the Tokyo Declaration, the over-all aim of the multilateral trade negotiations is to achieve the expansion and ever greater liberalization of world trade and improvement in the standard of living and welfare of the people of the world through the progressive dismantling of obstacles to trade and the improvement of the international framework for the conduct of world trade.

10. Specifically for the developing countries, the Declaration states that the aim of the negotiations is to secure additional benefits for the international trade of developing countries so as to achieve a substantial increase in their

[1] See GATT, *Basic Instruments and Selected Documents, Twentieth Supplement* (Sales No. GATT/1974-1), p. 19.

[2] Information on further developments in the negotiations is contained in document TD/227/Add.1 below.

[3] The particular responsibilities of UNCTAD in regard to the multilateral trade negotiations and problems and policy issues concerning trade and development, particularly of the developing countries, are contained in various General Assembly resolutions and UNCTAD resolutions, in particular Conference resolutions 76 (III), 81 (III), 91 (IV) and 96 (IV). More specifically, in the field of tariff and non-tariff barriers and related issues, the Committee on Manufactures has laid down the specific responsibilities of UNCTAD in regard to the liberalization of tariff and non-tariff barriers and adjustment assistance measures (see its decisions 2 (III) of 18 October 1968, 1 (IV) of 30 January 1970 and 1 (V) of 14 May 1971, its resolution 6 (VI) of 17 August 1973 and its decision 10 (VII) of 4 July 1975 (*Official Records of the Trade and Development Board, Eighth Session, Supplement No. 2* (TD/B/199/Rev.1), annex I; *ibid., Tenth Session, Supplement No. 2* (TD/B/295), annex I; *ibid., Eleventh Session, Supplement No. 2* (TD/B/352), annex I; *ibid., Thirteenth Session, Supplement No. 5* (TD/B/466), annex I; and *ibid., Fifteenth Session, Supplement No. 3* (TD/B/576), annex I, respectively).

foreign exchange earnings, the diversification of their exports, the acceleration of the rate of growth of their trade, taking into account their development needs, an improvement in the possibilities for these countries to participate in the expansion of world trade and a better balance as between developed and developing countries in the sharing of the advantages resulting from this expansion, through, in the largest possible measure, a substantial improvement in the conditions of access for the products of interest to the developing countries and, wherever appropriate, measures designed to attain stable, equitable and remunerative prices for primary products.

11. In pursuance of the above objectives, the Declaration provides that co-ordinated efforts shall be made to solve in an equitable way the trade problems of all participating countries, taking into account the specific trade problems of the developing countries.

B. Principles and treatment for developing countries

12. The Tokyo Declaration set out principles governing treatment for developing countries in the trade negotiations. These concern, among others, non-reciprocity in favour of the developing countries, the need for special measures, the importance of the application of differential measures and the particular situation and problems of the least developed among the developing countries. The stated principles set out in the Declaration include the following:

(*a*) Negotiations shall be conducted on the basis of the principles of mutual advantage, mutual commitment and over-all reciprocity, while observing the most-favoured-nation clause, and consistently with the provisions of the General Agreement on Tariffs and Trade relating to such negotiations;

(*b*) Participants shall jointly endeavour in the negotiations to achieve, by appropriate methods, an over-all balance of advantage at the highest possible level;

(*c*) Developed countries do not expect reciprocity for commitments made by them in the negotiations to reduce or remove tariff and other barriers to the trade of developing countries, i.e., the developed countries do not expect the developing countries, in the course of the trade negotiations, to make contributions which are inconsistent with their individual development, financial and trade needs;

(*d*) The need for special measures to be taken in the negotiations to assist the developing countries in their efforts to increase their export earnings and promote their economic development and, where appropriate, for priority attention to be given to products or areas of interest to developing countries is recognized;

(*e*) The importance of maintaining and improving the generalized system of preferences is recognized;

(*f*) 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 is also recognized.

13. Further, the Ministers recognized that the particular situation and problems of the least developed among the developing countries should be given special attention, and they stressed 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.

C. Coverage and organizational structure

14. The Tokyo Declaration provides that the negotiations shall cover tariffs, non-tariff barriers and other measures which impede or distort international trade in both industrial and agricultural products, including tropical products and raw materials, whether in primary form or at any stage of processing, including in particular products of export interest to developing countries. The adequacy of the multilateral safeguard system is also to be examined, with a view to furthering trade liberalization and preserving its results. Furthermore, improvements in the international framework for the conduct of world trade which might be desirable in the light of progress in the negotiations are to be considered, care being taken to ensure that any measures introduced as a result are consistent with the stated over-all objectives and principles of the trade negotiations and of trade liberalization.

15. The Declaration provided for the establishment of a Trade Negotiations Committee with the following functions: (*a*) to elaborate and put into effect detailed trade negotiating plans and to establish appropriate negotiating procedures, including special procedures for the negotiations between developed and developing countries; and (*b*) to supervise the progress of the negotiations. The Trade Negotiations Committee initially established six groups which were to organize and conduct negotiations on topics specified in paragraph 3 of the Tokyo Declaration, namely: tropical products, tariffs, non-tariff measures, agriculture, the sector approach, and safeguards. Under paragraph 9 of the Declaration, the Committee established in early 1977 the "Framework" Group. The Group on Non-Tariff Measures set up four subgroups to deal with the following questions: (i) quantitative restrictions (including licensing); (ii) subsidies and countervailing duties; (iii) technical barriers to trade; (iv) customs matters. In early 1976 the Group also established a subgroup on government procurement. The Group on Agriculture created three subgroups—on meat, grains, and dairy products.

16. The initially agreed target date of the end of 1975 for the conclusion of the negotiations was postponed owing to delay in the passage of the necessary legislation in one major participating country. Dates for the conclusion of the negotiations subsequently set unilaterally by the developed participating countries—15 July and 15 December 1978—were also not met, owing not only to the slow progress but also to the resistance of the participating developing countries to the conclusion of the negotiations before the commitments in their favour had been fully net.

D. Interim bilateral accords or understandings

17. Negotiations were not completed by the 15 December 1978 deadline, which had been set by several developed country participants. This further delay was, *inter alia*, due to the lack of agreement on a number of important issues by certain major participating countries. While the final document is still under discussion, a number of bilateral accords on trade concessions have been concluded. These accords are not legally binding instruments

but are more or less formal understandings, written or unwritten, on aspects of various negotiating issues. The first was concluded on 18 December 1978, when the United States of America and Japan announced that they had come to a "comprehensive understanding on all principal issues under negotiation". The understanding includes all specific product concessions of particular bilateral interest to the two countries with respect to specific tariff cuts as well as all substantial issues covered by the draft codes. Both parties have pledged their best efforts to avoid any significant modifications of these understandings as their respective negotiations with other participants are finalized. Shortly after the above announcement, Japan and Switzerland announced the conclusion of a provisional accord involving a wide range of products which followed two similar accords concluded by Japan, with Sweden and Finland, details of which will not be revealed before they are combined in a final over-all accord.

18. On 22 December 1978 the United States and EEC reached a broad agreement on a series of non-tariff codes covering such areas as subsidies and countervailing duties, government procurement, standards, customs valuation procedures and licensing. The United States and EEC also announced that the major elements of an accord on agricultural products were on the table, but that the issue of tariff cuts on industrial products needed further negotiation. The United States has concluded accords with Switzerland and Austria on issues concerning their commercial relations, covering an exchange of concessions on tariff and other barriers to trade on both industrial and agricultural products. The bilateral accords mentioned above also include areas of basic understanding on substantial issues covered by the various draft codes.

19. Other similar bilateral accords may be concluded in the months ahead. At the time of writing, the developing countries had not been included in similar bilateral negotiations with the major participating countries, although certain developing countries have concluded bilateral negotiations with a major participating country and it is not unlikely that similar agreements will be reached by some other developing participating countries, including those countries that intend to accede to GATT, before the conclusion of the negotiations. Developing countries are apprehensive that, as in the Kennedy Round, they may be faced with a situation wherein they will be presented with a final package on a "take-it-or-leave-it" basis without having fully participated in its negotiation.

20. It is not expected that the contents of the over-all package will be agreed upon and the negotiations concluded before the fifth session of the Conference. Moreover, further work might need to be undertaken concerning the codes and agreements during the latter part of 1979. However, it would be in the best interest of the developing countries that the legal and related questions should be resolved before they accept these instruments and before the instruments enter into force. It is likely that follow-up action, including further negotiations within the framework provided by the agreements, will be a continuing process.

CHAPTER II

General and legal issues

A. General issues

21. An evaluation of the developments in the multilateral trade negotiations from the viewpoint of the developing countries indicates a rather wide gap between the over-all and specific objectives of the negotiations and the actual results so far emerging from them. A number of fundamental general and legal issues are still to be clarified and resolved. Many of the specific proposals put forward by the developing countries concerning issues of serious concern to them in various areas of the negotiations have yet to be expressed in concrete form in codes, texts, agreements, understandings or decisions and are consequently still outstanding.

1. *Differential and more favourable treatment*

22. The Tokyo Declaration 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. The over-all results of the negotiations with respect to the implementation of this principle have been very disappointing for the developing countries. Although specific proposals outlining such treatment have been put forward by the developing countries, progress in the negotiations to implement this basic commitment in concrete form has been inadequate and very slow.

2. *Non-reciprocity*

23. The Tokyo Declaration provides that the developed countries do not expect reciprocity for commitments made by them in the negotiations to reduce or remove tariff and other barriers to the trade of developing countries, i.e. the developed countries do not expect the developing countries to make contributions which are inconsistent with their individual development, financial and trade needs.

24. The commitment to non-reciprocity in favour of the developing countries[4] mentioned in the Tokyo Declaration has not been fully observed in the negotiations. In some negotiating groups, including that on tropical products, contributions from developing countries have been made a condition for the implementation of developed country offers, although most developing countries maintain that any contributions which they are in a position to make may be determined only after they have made a comprehensive evaluation of the whole package in terms of additional trade benefits for them.

25. In this connexion, it may be mentioned that some developing countries have already announced their intended

[4] This commitment to non-reciprocity in favour of the developing countries is stressed in paragraph 15 (*d*) of Conference resolution 91 (IV), which refers to "strict adherence to the principle of non-reciprocity", as well as in General Assembly resolution 33/199 of 29 January 1979, which in paragraph 1 calls upon the developed countries to "abide by agreements... with regard to the principle of non-reciprocity".

contributions and it is not unlikely that others will make similar indications before the conclusion of the negotiations. The objective of non-reciprocity has been further diluted by the insistence of developed countries on the application of the concept of graduation.[5] In the context of the codes this principle would no longer consider the developing countries as a single group but would expect differing obligations on the basis of level of development. The developing countries reject this concept of graduation by maintaining that there is no uniformly agreed objective basis for such differentiation and that the concept, if applied, would only increase discrimination among developing countries by allowing developed countries to take actions in a unilateral and arbitrary manner.

3. *Multilateralization and transparency*

26. The developing countries have consistently stressed the vital importance of preserving the multilateral character of the negotiations in all stages of the multilateral trade negotiations in order to enable them to participate effectively and to assess accurately their over-all and particular position vis-à-vis specific issues.

27. The tendency towards bilateralization of the negotiations from the beginning aggravated their increasing lack of transparency, especially during the final stages, when negotiations were conducted on an informal basis outside the established bodies. In addition, most of the agreements so far reached have been the result of bilateral or plurilateral negotiations between developed countries, often outside the established framework, as evidenced by the joint statements issued by certain developed countries declaring that they had reached bilateral accords among themselves (cf. paras. 17 and 18 above). This lack of transparency has inhibited the effective participation of the developing countries in the multilateral trade negotiations, particularly in regard to products of vital export interest to them, since many of these items are under the threat of being placed on the "exception" lists by the major trading countries.

4. *The least developed countries*

28. The Tokyo Declaration recognizes the particular situation and problems of the least developed among the developing countries as deserving special attention. Paragraph 6 of the Declaration stresses 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. Despite the specific proposals and suggestions made by the least developed countries to cover their interests, there has been little recognition of their needs in the form of measures that could be taken on their behalf.

5. *Special procedures*

29. The Tokyo Declaration entrusted the Trade Negotiations Committee with the task of establishing appropriate negotiating procedures, including special procedures for the negotiations between developed and developing countries. Apart from the work of the Group on Agriculture, the Group on Non-tariff Measures and the Group on Tropical Products, the negotiations have reflected a lack of special procedures for developing countries. The developing countries have stressed without much success the need for special procedures to achieve the objectives of the negotiations.

B. Legal issues

30. A number of important interrelated legal and procedural questions of concern to developing countries are still unsettled and need to be resolved if the interests of developing countries are not to be seriously undermined. These include (*a*) application of the codes; (*b*) rules and procedures for the approval of instruments negotiated in the multilateral trade negotiations; and (*c*) the position of non-GATT participants. Another related issue pertains to the formal conclusion of the negotiations. During the Kennedy Round, the Trade Negotiations Committee at its concluding session had approved the text of the Final Act drawn up by the Legal Drafting Group. How the Tokyo Round will conclude is still not clear, as no formal legal drafting group has been established. These issues naturally cause concern to the developing countries as, even at this late stage of the negotiations, no real attempt seems to have been made to discuss their substance or to assess their implications in spite of their importance and complexity.

1. *Application of the codes*

31. The question that arises in regard to application is whether or not participating GATT countries that have not accepted or could not accept a code drawn up as a result of the multilateral trade negotiations are entitled to the benefits emanating from the codes in accordance with the MFN clause of article I of the General Agreement. There are two types of code: (*a*) those which interpret specific articles of the General Agreement (e.g., those on customs valuation, subsidies and countervailing measures); and (*b*) those where reference to articles of the General Agreement is less direct (e.g., that on government procurement). In spite of this different relationship between the various codes and GATT, the final provisions of all the codes indicate that they shall apply as among the parties which have acceded to them. In other words, a "conditional MFN" approach seems already to have been visualized by the drafters regardless of whether the codes are intended to interpret articles of the General Agreement or are "new obligations" in the sense that the measures involved are not specifically dealt with in any of the articles. Whatever the nature of the code, it would appear very difficult to justify the "conditional MFN" approach. For example, it has been argued that GATT contracting parties are not prevented from agreeing with other contracting parties concerning a particular interpretation of an article of the General Agreement and applying it to their mutual trade without at the same time extending such interpretation to others. However, it would seem that if such an interpretation impinges on the rights of other contracting parties (e.g. selective approach and article XIX) they would have every right to question such an interpretation. On the other hand, if such an interpretation extends certain benefits to other

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[5] In the Arusha Programme for Collective Self Reliance and Framework for Negotiations (see vol. I, annex VI), developing countries rejected "the concept of 'graduation' sought to be introduced by developed countries in the trading system, which would, *inter alia*, allow developed countries to discriminate among developing countries in a unilateral and arbitrary manner" (sect. III, item 9 (*b*) of the provisional agenda of the Conference, para. 4 (*f*)).

contracting parties, those benefits should be "immediately and unconditionally" available to all other contracting parties, as required by article I of the General Agreement. Another argument advanced for the "conditional MFN" approach has been based on the view that the MFN principle does not cover any new rights or obligations going beyond those imposed by GATT that might be established between particular parties. However, this argument also would seem to be of doubtful validity, since article I makes no distinction between existing and new obligations.

2. *Rules and procedures for the approval of instruments*

32. The multilateral trade negotiations are not technically a GATT operation, since they were not initiated through a decision of the contracting parties, and it is therefore not clear whether the relevant "decision-making rules"[6] of GATT will be invoked for the approval of instruments. Developing countries are apprehensive that developed countries might reach agreement among themselves on the texts of the various codes and then simply announce that such texts are open for signature and acceptance by other participants without even submitting the texts for approval by the Trade Negotiations Committee. In order to avoid such an eventuality, developing countries have requested that a rule be established for the decision-making process in the multilateral trade negotiations according to which no adoption of a negotiating document would be accepted unless a large majority of the participants declared themselves in favour of it. No such rule has been formally adopted.

3. *The position of non-GATT participants*

33. Many developing countries participating in the multilateral trade negotiations are not members of GATT and are therefore uncertain as to whether they would, from a legal point of view, be entitled to receive the benefits resulting from the negotiations without necessarily becoming contracting parties to GATT. The texts of the codes provide that non-members of GATT could also accede to the codes provided they undertake to observe the provisions of the codes and such other provisions relating to the effective application of rights and obligations as may be agreed. What these additional obligations would be is not yet known. However, the apparent logic behind this approach seems to be that, in cases where a code interprets a certain GATT provision, the obligations accepted by a non-member of GATT would be meaningless unless that country also accepted the related GATT provisions (e.g. code on safeguards). But how this logic or approach is relevant in respect of codes not intended to interpret GATT articles (i.e. government procurement) is not entirely clear.

[6] Some of the relevant GATT provisions are rules 28 and 29 of the rules of procedure for sessions of the contracting parties (see GATT, *Basic Instruments and Selected Documents, Twelfth Supplement* (Sales No. GATT/1964-1), p. 10) and articles XXIV, para. 10, XXV, XXX and XXXIII of the General Agreement (GATT, *Basic Instruments and Selected Documents,* vol. IV (Sales No. GATT/1969-1)).

CHAPTER III

Specific issues raised in the various negotiating groups

34. The following sections present a preliminary analysis and evaluation, from the perspective of the trade interests of the developing countries, of the various substantive issues discussed in the multilateral trade negotiations.

A. Tariffs, including the generalized system of preferences

35. The specific objectives which the developing countries have put forward for the tariff negotiations are reflected in the relevant provisions both of the Tokyo Declaration and of the resolutions adopted by the United Nations Conference on Trade and Development at its fourth session. The Tokyo Declaration, in the context of its over-all aim of securing additional benefits for the international trade of developing countries, recognized, *inter alia*, the importance of maintaining and improving the GSP as well as the importance of the application of differential measures to developing countries in ways which would provide special and more favourable treatment for them. With reference to the relevant parts of the Tokyo Declaration, the developing countries specified at the fourth session of the Conference the areas of major importance to them where they expected concessions from the developed countries in the tariff negotiations. In particular, the developing countries have called for the binding of commitments and concessions in their favour; the inclusion of all developing countries as beneficiaries in the schemes of generalized preferences; advance implementation of concessions in their favour; special priority in the scope, content and depth of tariff concessions for tropical products requested by developing countries on a non-reciprocal basis and, as appropriate, on a preferential basis. In addition, the developing countries have requested deeper-than-formula tariff cuts for products of interest to them that are not covered by the GSP; the binding in GATT of preferential tariff margins; and effective compensation in the event of the erosion of preferential margins resulting from MFN tariff cuts.[7]

36. However, most of the activities in the multilateral trade negotiations regarding tariffs have been undertaken outside the established framework for tariff negotiations. In September 1977, the United States of America and EEC reached agreement in principle on a working hypothesis for tariff reduction in the industrial sector and Japan subsequently agreed to it, followed by other developed countries. The formula accepted as the "working hypothesis" in the negotiations is expressed as follows:

$$\text{Post-Tokyo Round rate} = \frac{\text{initial rate} \times \text{coefficient}}{\text{initial rate} + \text{coefficient}}$$

It has been generally assumed by the offering countries that tariff reduction would be implemented from 1 January 1980 and would be spread over a period of eight years. As regards the developing countries, no general guidelines in

[7] See Conference resolution 91 (IV), sect. II.

respect of special and differential treatment have been elaborated; this treatment was expected to proceed on a request/offer basis. Developed countries have reiterated that developing countries would be expected to make contributions consistent with their development, financial and trade needs.

37. It seems obvious that the application of the Swiss tariff-cutting formula in the multilateral trade negotiations is bound to erode preferential tariff margins across the board for manufactured and semi-manufactured products in CCCN chapters 25-99 covered by the GSP without providing adequate tariff advantages to the export trade of developing countries through improvement of the GSP and through MFN tariff reductions on industrial products not covered by the GSP, as stipulated in the Tokyo Declaration and in Conference resolution 91 (IV). Preferential tariff margins on agricultural products in CCCN chapters 1-24 covered by the GSP would also be affected by the MFN tariff cuts. Lack of information on actual offers for MFN tariff cuts does not allow an estimate to be made at this stage of to what extent and whether the erosion of GSP margins would be compensated for by tariff cuts on other agricultural products of export interest to developing countries currently not included in the GSP.

38. Developing-country exports of industrial products are likely to be adversely affected by the multilateral trade negotiations in two ways. First, practically all industrial products covered by the GSP will be subject to MFN tariff cuts and there will be a significant erosion of existing GSP margins. Secondly, sensitive industrial products, which are excluded from the majority of schemes, will also most likely be placed on full or partial exceptions lists and there will be no MFN tariff cuts. As a result, the developing countries stand to receive less-than-average or no MFN cuts on products not covered by the GSP. For these reasons and because of the harmonizing effect of the tariff-cutting formula, the expected erosion of GSP margins will generally be greater than the average over-all tariff cut resulting from the negotiations. Thus, the trade expansion effects resulting from high GSP margins will not be preserved.

39. Preliminary analysis of the static effects of the multilateral trade negotiations on preferential margins under the schemes of EEC, Japan, and the United States, which together account for more than 90 per cent of GSP imports from developing countries by OECD preference-giving countries, indicates that the trade-weighted average pre-Tokyo GSP tariff margin on industrial products of 8.0 per cent would be reduced to 4.7 per cent as a result of the application of the tariff-cutting formula.[8] This reduction in the GSP margin of 3.3 percentage points represents a 40 per cent reduction in average preferential tariff advantages to the beneficiaries of the three schemes.[9]

40. Furthermore, the harmonizing effect of the tariff formula would radically change the structure of GSP margins. For example, 80 per cent of the value of imports of products covered by the combined three schemes were subject to the pre-Tokyo MFN tariffs up to 12 per cent, whereas the same value of imports in the post-Tokyo period would be subject to tariffs up to 7 per cent or below. Moreover, in the pre-Tokyo period, imports occurred under tariff margins which were as high as 20 per cent or more, which provide a basis for high GSP trade expansion effects. By contrast, there would be virtually no trade affected by such high margins in the post-Tokyo period, which would significantly reduce the trade expansion potential of the GSP. In addition, a substantial amount of imports ($1.7 billion) on which beneficiaries at present have a preferential margin under the United States scheme would lose such advantage if the products with rates of 5 per cent or below become free of MFN duty, as provided under the United States Trade Act of 1974.

41. As mentioned above, the application of the Swiss harmonizing tariff-cutting formula to products in CCCN 25-99 not covered by the GSP schemes of EEC, Japan and the United States and not included in their full or partial exceptions lists should lead to the expansion of developing-country exports in the form of trade creation. Preliminary analysis of the static effects of the application of the tariff-cutting formula to the products not covered by the GSP, on the assumption that none of these products is on the exceptions list, indicated that the pre-Tokyo trade-weighted average MFN tariff on these products for the combined three markets amounted to 5.0 per cent. The post-Tokyo reduced trade weighted average would amount to 2.9 per cent, or a reduction of about 40 per cent.[10] If the United States reduces all rates of 5 per cent or below to zero, as provided for in the Trade Act, the post-Tokyo MFN rate would decline to 3.2 per cent, or by about 40 per cent.[11]

42. In contrast to the GSP-covered products, there would be a less radical shift in the structure of tariffs affecting the bulk of the value of non-GSP-covered imports from the developing countries in the post-Tokyo period. This is largely due to the harmonizing effect of the tariff-cutting formula which reduces higher tariffs proportionately more than lower tariffs. Since 80 per cent of the value of imports of these non-GSP-covered products in the pre-Tokyo period were subject to the relatively low tariffs of 6 per cent and below, the application of the tariff-cutting formula would shift down this trade to only a slightly lower tariff range of 5 per cent or less. Furthermore, and as will be discussed later, the reduction of the MFN rates on non-GSP-covered products will not have an optimum trade expansion force since many of these products are subject to non-tariff barriers, such as the

[8] The preliminary analysis is based on the application of the Swiss tariff-cutting formula using a coefficient of 14, because the information on actual tariff offers was not available.

[9] The 1976 trade-weighted tariff averages under the three schemes for pre-Tokyo periods were: EEC, 11.4 per cent; Japan, 7.7 per cent; United States, 7.4 per cent; and under the application of the Swiss formula, the corresponding post-Tokyo tariff averages would be: EEC, 5.9 per cent; Japan, 4.7 per cent; United States, 4.4 per cent.

[10] The pre-Tokyo Round 1976 trade-weighted tariff averages for these non-GSP-covered products for the three schemes were: EEC, 5.3 per cent; Japan, 1.6 per cent; United States, 10.5 per cent; under the application of the Swiss formula, the corresponding post-Tokyo tariff averages would be: EEC, 3.9 per cent; Japan, 1.4 per cent; United States, 4.8 per cent.

[11] The United States pre-Tokyo Round trade-weighted tariff average under this assumption is 10.5 per cent and, under the application of the Swiss formula, the corresponding post-Tokyo tariff average would be 8.2 per cent.

quantitative restrictions on textile products under the Multifibre Arrangement.[12]

43. Preliminary estimates of the changes in the trade expansion effects of the GSP and the MFN tariff cuts which would result from the multilateral trade negotiations for industrial products covered by the GSP under the combined schemes of EEC, Japan and the United States, as measured by the volume of trade creation and trade diversion, support the static implications of the MFN tariff cuts on the GSP discussed above. Taking the pre-Tokyo MFN tariff rates on industrial products covered by the three major schemes[13] as the GSP margins in 1976, the combined trade expansion effects of these three schemes would have amounted to some $5.7 billion. By contrast, the post-Tokyo GSP margins would have generated a trade expansion of $3.6 billion, representing a $2.1 billion or a 37 per cent reduction in trade relative to the pre-Tokyo situation. This post-Tokyo trade expansion would be lower, amounting to $3.4 billion, or 40 per cent below the pre-Tokyo figure, if the United States should eliminate MFN tariffs of 5 per cent or less, as authorized in the 1974 Trade Act.

44. The offsetting benefits which could accrue to the developing countries through trade expansion in the form of trade creation arise from the application of the tariff-cutting formula to exports of products not covered by the GSP and not subject to full or partial exceptions from the general tariff cuts. Unlike the trade expansion effects of preferential tariff margins, which generate both trade creation and trade diversion effects for developing countries, the MFN tariff cuts on non-GSP-covered products can produce only the trade creation effects. Thus, the important trade diversion effects, which provide trade expansion only to beneficiaries of the GSP on products covered by the schemes, would not operate in this case. In those non-GSP-covered product lines where the developing countries have a demonstrated comparative advantage, such as textiles, footwear, etc., the existence of non-tariff barriers such as quantitative restrictions, voluntary export restraints, orderly marketing arrangements, etc., effectively neutralizes the trade expansion effects which would occur under unfettered international competition. The estimates of benefits discussed below ignore this effect of non-tariff barriers and assume that only tariffs operate as the principal trade barrier. Thus, they overstate the trade expansion effects of tariff liberalization on those non-GSP-covered products of particular interest to developing countries which in fact are subject to restrictive non-tariff barriers. The estimated trade creation effect which could accrue to developing countries as a result of MFN tariff reductions on products not covered by the GSP for the combined markets of EEC, Japan and the United States would amount to $1.7 billion (or $1.72 billion if the United States reduced all tariffs of 5 per cent or less to zero).

45. Given the estimated net loss in trade expansion from the erosion of GSP margins as a result of the multilateral trade negotiations of $2.1 billion (or $2.3 billion) on GSP-covered products mentioned above, the net trade expansion effects of the negotiations, taking into account both losses on GSP-covered products and gains on non-GSP-covered products, amount to a net loss of $0.4 billion (or $0.6 billion) for the developing countries. If those textile products not covered by the United States scheme were to be put on the exceptions list, the net over-all trade effects of the negotiations, on developing countries would amount to a loss of $1.2 billion (or $1.4 billion).

46. Thus, the preliminary estimates show that on the whole the tariff reductions on industrial products currently imported by EEC, Japan and the United States from beneficiaries of their GSP schemes would, owing to the consequent erosion of GSP margins, result for these beneficiaries in a net loss of trade expansion effects ranging from $0.4 to $1.4 billion. Since no major improvements in the GSP have been made to offset the erosion of preferential margins resulting from MFN cuts, it would appear that the commitments to maintain the GSP and to provide for special and more favourable treatment for developing countries, as called for under the Tokyo Declaration and Conference resolution 91 (IV), would not be fulfilled in the area of tariffs.

B. Non-tariff measures

47. The Tokyo Declaration provided that the multilateral trade negotiations should cover non-tariff measures. Five negotiating groups on non-tariff measures were set up to elaborate draft codes or texts in the areas of quantitative restrictions and licensing, customs matters, technical barriers to trade, subsidies and countervailing duties, and government procurement. Procedures were also agreed for negotiations on some non-tariff barriers not dealt with multilaterally, i.e. notification and subsequent bilateral and plurilateral consultations on such matters. However, the proposal by developing country participants for the creation of sub-groups on other types of non-tariff measures—namely, variable levies and import charges and anti-dumping—were not accepted. During the latter stages of the negotiations the participating developed countries became interested in anti-dumping questions and presented proposals for a revised although weakened anti-dumping code.

48. The specific objectives of the developing countries in the negotiations on non-tariff measures are reflected in the relevant provisions of the Tokyo Declaration and in resolutions adopted by the Conference, in particular resolution 91 (IV). In addition to these objectives the developing countries presented detailed proposals in all the subgroups, which also provided benchmarks for assessing the substantive progress on issues of serious concern to the developing countries.

1. *Quantitative restrictions and licensing*

49. Substantive progress with regard to quantitative restrictions has been rather slow and the results achieved so

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[12] Originally called the Arrangement Regarding International Trade in Textiles (see GATT, *Basic Instruments and Selected Documents, Twenty-first Supplement* (Sales No. GATT/1975-1), p. 3), extended to 31 December 1981 by Protocol signed on 14 December 1977 (*ibid., Twenty-fourth Supplement* (Sales No. GATT/1978-1), p. 5).

[13] This analysis is based on 1976 trade flows, with the product coverage of the schemes adjusted to reflect the reduction of trade expansion effects of preferences due to *a priori* limitations under the schemes of EEC and Japan and the competitive need exclusions under the United States scheme.

far have been disappointing to the developing countries. The joint proposal which they had put forward for the phasing out of quantitative restrictions maintained by developed participating countries was rejected and instead a request/offer procedure was adopted. The developing countries expressed dissatisfaction over the bilateral approach. They also were dissatisfied with the proposal by some developed participating countries to include quantitative restrictions applied by the developing countries in the negotiations. The developing countries stress the need for differential and more favourable treatment and maintain that no existing restrictions on products of export interest to the developing countries should be excluded from the liberalization programme.

50. The draft text on import licensing procedures deals with general application procedures and calls for neutrality in application and equitability in administration of such procedures. All information pertaining to licensing should be published; application forms should be as simple as possible and none should be refused for simple errors that are easily rectified and that do not alter the basic data. Licence applications should be centralized in a single administrative agency previously specified in published rules, and any additional agencies involved in exceptional circumstances should be kept as small as possible in number. Furthermore, foreign exchange should be made available to licence-holders on the same basis as to other importers of goods not requiring import licensing.

51. With respect to automatic licensing the draft code covers import licensing where approval of the application is freely granted. Applications may be submitted at any time prior to the customs clearance of the goods, and licences should be granted either immediately on receipt of application or within a maximum of 10 working days. Anyone fulfilling the legal requirements for importing should be permitted to do so. The proposal by developing countries that developed countries should eliminate automatic licensing when importing from developing countries seems to have been rejected.

52. The provisions on non-automatic licensing apply to the trade-restrictive effects of licensing procedures as such, in addition to those associated with quantitative import restrictions. In general, such licensing procedures should not be used in such a manner as to create additional trade barriers. The code provides that the period for processing applications should be as short as possible. Licence validity should be sufficient to facilitate full utilization of import quotas, and Governments should take into account whether past licences issued to a particular supplier were in fact utilized. Licences should not be issued in uneconomically small quantities or to an unduly small number of importers, and consideration should be given to ensuring a reasonable distribution of licences to new importers. Licence-holders should be clearly specified in the case of selective quotas. The draft code requires the publication of quotas and country shares and provides for a right of appeal when a licence application is refused. The provision of the code requiring adherents to supply all relevant information upon request may place a burden on developing countries.

53. The draft code provides for virtually no special and differential treatment for exports of developing countries. No provisions are made in the draft code for technical assistance to developing countries nor are provisions made to impose a "standstill" on new licensing arrangements. However, the simplification of licensing procedures could contribute significantly to liberalization of international trade and should benefit traders, including the developing countries.

54. The developing countries are for an explicit recognition of their right to continue to use import licensing as an instrument of economic policy, and to be permitted to do so under any licensing code that may be adopted. This right should include the use of licensing under some circumstances to permit developing countries to discriminate among suppliers, to administer health and sanitary measures, to implement tied aid, to administer bilateral clearing arrangements, and the like. The draft code has not met developing countries' objectives in this regard.

55. The draft code in its present form lacks meaningful provisions for differential treatment and thus does not provide additional benefits for developing countries. However, the code's general objectives of harmonization of licensing procedures and lessening of the administrative burdens of importers and exporters coincide with the interests of developing countries. Given the apparent interest on the part of developed countries for simplification of licensing procedures in developing countries, any acceptance of the code by developing countries could be regarded as a contribution to the over-all results of the negotiations.

2. *Customs valuation*

56. The nature of special and differential treatment for developing countries has been the subject of different interpretations in the negotiations on the draft code on customs valuation. Developed countries are firm in their view that customs valuation systems must be applied in a non-discriminatory manner and emphasize that preferential treatment for developing countries in this field might be detrimental for all participants. The developing countries stress that any new set of rules concerning customs valuation should take into account their special needs and problems. Another issue of special concern to developing countries is the need to ensure an adequate degree of protection for their infant industries and other domestic industries against unfair competition arising from under- or over-valuation. The developing countries also propose doing away with the concept of computed value as a basis for customs valuation, since it does not readily lend itself to verification in the developing countries.

57. The draft code provides for the use of one principal system of customs valuation, based on transaction value, that is, the price actually paid for the imported goods obtained in the transaction of buying and selling among two independent parties. The code stipulates that if this method cannot be used it is to be replaced by the successive application of valuation rules according to the following hierarchy: (*a*) the transaction value of identical goods sold for export to the same country of importation, at the same commercial level and in substantially the same quantity; (*b*) the transaction value of similar goods, sold for export to the same country at about the same time as goods being valued; (*c*) the transaction value of identical or similar imported goods sold to an independent buyer in the country of importation; (*d*) computed value equal to the cost of materials and production processing plus the usual

profit and share of general expenses incurred in producing the goods in the country of export for sale in the country of importation. The country of importation cannot, however, compel any non-resident to supply any records for this determination. The use of computed value is generally to be restricted to related party transactions for which the producer is willing to supply cost information. At the request of the importer, the order of application of the resale method and the computed value method–(*c*) and (*d*)–can be reversed. If valuation cannot be determined by any of these methods, it should be determined consistent with the principles of the General Agreement on Tariffs and Trade, the code itself and the interpretative notes thereof.

58. The draft agreement stipulates the establishment of both a committee on customs valuation and a technical committee on customs valuation. The committee on customs valuation would review annually the operation of the agreement and may be requested to investigate disputes to facilitate a mutually satisfactory solution. The technical committee would undertake an examination of the uniformity of interpretation and application of the agreement and provide technical assistance, information, and advice on valuation matters.

59. Some of the provisions of the agreement appear to be in accord with the proposal of the developing countries for an end to customs procedures which tend to overvalue their exports. The rules do not permit valuation based on the price of domestic goods in the country of importation, such as "ASP" (American selling price), or valuation based on prices in the exporting country's domestic market. The developing countries may delay application of the provisions of the agreement for up to five years and delay domestic application of the computed value procedure for up to three additional years. In addition, the developed countries would agree to provide technical assistance, on mutually agreeable terms, to developing countries to train personnel, assist implementation, and advise on general matters of customs valuation.

60. However, many aspects of the draft agreement fall short of the proposals of developing countries. Valuation based on the cost of production is permitted. Valuation based on the price of sales from the export country to third countries is not permitted. The draft agreement covers valuation only for levying *ad valorem* tariffs. Hence, developing countries' exports subject to specific tariffs, variable levies, quotas based on value, internal taxes or charges applied at the border are not covered by the code. Assumption of the obligations under the code will place a significant burden on developing countries, in view of their lack of administrative infrastructure. Therefore the special and differential treatment contained in the draft agreement appears narrow and limited.

3. *Technical barriers to trade*

61. The draft standards code[14] covers the preparation, adoption and use of technical regulations and standards, assurance of conformity with technical regulations and standards and the operation of certification systems. Under the code, signatories would undertake: (*a*) to avoid creating unnecessary trade barriers through technical regulations and standards and to accord MFN and national treatment to products imported from any party in relation to such technical regulations or standards; (*b*) to harmonize technical regulations and standards, as far as possible, through using international standards as the basis for domestic technical regulations and standards; (*c*) to co-operate as fully as possible with international standardization bodies to promote harmonization of technical regulations and standards; (*d*) to specify technical regulations and standards in terms of performance rather than design, where appropriate; (*e*) except in cases of extreme urgency, to publicize the proposed new technical regulations and standards and notify other signatories through the GATT secretariat of the products to be covered by technical regulations, including a brief indication of the objective and rationale thereof, and to allow reasonable time to others to comment before such regulations and standards are actually introduced; (*f*) to publish all technical regulations and standards; (*g*) to allow a reasonable interval between the publication of a technical regulation and its entry into force, in order to allow time for producers in exporting countries, and particularly in developing countries, to adapt their products or methods of production to the requirements of the importing country; and (*h*) to use all reasonable means to ensure that local government bodies, non-governmental bodies and regional standardization bodies also comply with the above commitments.

62. The draft standards code also aims to ensure that test methods and administrative procedures are not implemented for purposes of obstructing trade, that such procedures are fully defined and published, and that tests may as far as possible be carried out in other signatory States. Signatories should permit the use of different test methods, provided the importing adherent is satisfied that the exporting country's test methods provide an equivalent means of determining whether the products are in conformity with its own technical regulations. The code would require reliance on producers' or certification bodies' own declarations of conformity.

63. Test methods for imported goods should be no more complex and no less expeditious than the corresponding methods and procedures in a comparable situation for like products of national origin. The results of tests should be made freely available, test facilities conveniently located, samples made easily available, and supplier confidentiality safeguarded.

64. Finally, certification systems should not themselves unnecessarily create obstacles to trade. Such systems should be announced in advance and notified together with product coverage and objectives, to the GATT secretariat. Reasonable time should be allowed for comment prior to official publication and for such comment to be taken into account. All rules of certification systems should be published. Suppliers from other signatory countries would have access to certification systems under conditions no less favourable than those accorded suppliers of like products of national origin or originating in any other signatory country. International certification systems should be open to non-member countries under conditions no less favourable than those accorded suppliers of like products originating in a member country. Creation of new international or regional certification systems should be notified to the

[14] The text finally adopted (see TD/227/Add.1 below, para. 3) is entitled "Agreement on Technical Barriers to Trade".

GATT secretariat, and the information should be published so as to allow reasonable opportunity for other States to comment on the proposed systems.

65. These provisions of the draft standards code, if successfully implemented, could help alleviate problems of market access faced in this regard by developing countries. However, the provisions apply only to new or revised standards and certification systems, and not to existing ones. The latter are subject to change only if they are deemed inconsistent with the provisions of the code after the matter has been specifically raised by one of the signatory countries. This means that the trade distortive effects of existing technical standards would be dealt with only in a largely *ad hoc* manner.

66. In view of the highly technical and complicated nature of the problem of technical barriers to trade, the full implications of the various provisions of the draft standards code for the developing countries are difficult to assess. The code contains provisions for special and differential treatment. These include, *inter alia*, a recognition of the problems and difficulties faced by developing countries in the area of technical barriers, the possibility of developing countries being granted time-limited exceptions to the obligations of the code, and technical assistance.

67. In the case of technical assistance, signatories would commit themselves to provide foreign suppliers, especially developing countries, with assistance in efforts to comply with technical regulations and standards and to establish standardizing and regulatory bodies of their own at the national, regional and subregional level. The developing countries have been mentioned specifically regarding a commitment by signatories to advise on the preparation of technical regulations, if requested, and on the establishment of regional and international standards arrangements and certification schemes. Technical assistance covers advice on optimal compliance with technical regulations and standards and provision of certificates of conformity. Such assistance would also be provided, on request, to developing countries with regard to institutional and legal arrangements that might be appropriate in order to enable them to fulfil the obligations of membership of an international or regional certification system.

68. It is difficult to assess how provisions of the draft code relating to subnational and non-governmental standards organizations in federal States, which are characterized by limited government control, will be applied. Problems arising in this connexion may be referred to the dispute-settlement mechanism.

69. Many developing countries do not now have the capability for meeting the code's requirements, and even with technical assistance it will take time for them to become signatories. It is unclear how seriously the commitments to technical assistance for developing countries will in fact be taken. The preamble to the draft code explicitly states that international standardization can contribute to the transfer of technology to developing countries. If this is to be realized in fact, the technical assistance provisions should be adequate and must be assumed to function effectively.

4. *Subsidies and countervailing duties*

70. Conference resolution 91 (IV) recommended that the countries participating in the multilateral trade negotiations should give recognition to the right of developing countries to accord export subsidies in the context of their development and industrialization policies without this giving rise to the application of countervailing duties. The joint stand of the developing countries stated in the Arusha Programme for Collective Self-Reliance and Framework for Negotiations[15] is that the right to use export and other subsidies to achieve their development objectives should be recognized. Countervailing duties may be levied against subsidized imports of developing countries only in exceptional cases and only after the determination of material injury on the basis of objective criteria. A draft agreement on the interpretation and application of articles VI, XVI and XXIII of GATT forms the basis of negotiations regarding subsidies and countervailing measures. Under the draft agreement on subsidies and countervailing measures, two types of procedure for counter-measures would be open to signatories who claim to be adversely affected in their economic interests owing to the application of a subsidy by another signatory. Under the first procedure, a country which claims to be affected may conduct an investigation of possible injury to its domestic industry. Consultations with the country alleged to apply a subsidy should precede and continue during the formal investigation of injury in an effort to achieve a mutually agreeable solution. In the absence of a negotiated solution, the country which initiated the investigation of injury may impose a countervailing duty provided the investigation proves the existence of a subsidy, injury to a domestic industry, and a causal link between the subsidy and the injury.

71. Under the second procedure, the country which claims to be adversely affected can, after an attempt at a negotiated bilateral settlement of a subsidy dispute has failed, refer the matter to the multilateral committee of signatories to the agreement for conciliation and, if the dispute is not resolved as a result of the conciliation, for a dispute-settlement by the committee. The two procedures can be initially undertaken in a parallel fashion.

72. A clear distinction has been drawn between export subsidies and domestic subsidies in the draft agreement. The agreement lays down general obligations not to use export subsidies on industrial products, including minerals, and provisions on export subsidies on agricultural products. The agreement contains guidelines regarding the use of domestic subsidies according to which signatories shall seek to avoid causing injury through the use of such subsidies.

73. Regarding the right of the developing countries to employ subsidies, the draft agreement states that signatories recognize that subsidies are an integral part of economic development programmes of developing countries. Accordingly, developing countries may adopt "measures and policies to assist their industries, including those in the export sector". Furthermore, it is stated that the ban on export subsidies on other than certain primary products as contained in the draft agreement shall not, in principle, apply to developing country signatories. However, the right

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[15] See vol. I, annex VI.

of the developing countries to employ export subsidies in order to diversify their economies and, in particular, to overcome structural disadvantages from which their economies and export sectors suffer was already recognized in the General Agreement on Tariffs and Trade, since the ban on export subsidies on industrial products provided for in article XVI, paragraph 4, is inapplicable to developing countries.[16] Moreover, under the draft agreement, the right to employ export subsidies is severely limited by various qualifications. First, the developing countries should not use export subsidies on their industrial products in a manner which causes "adverse effects" to the trade or production of another signatory. Secondly, a developing country should reduce or eliminate export subsidies when the use of such subsidies is inconsistent with its competitive needs. It has to be noted that "adverse effects" and "inconsistency with competitive needs" constitute rather ambiguous notions which are extremely wide and will give rise to differences of opinion as to the correct interpretation in each individual case. Finally, the committee of signatories should periodically review those export subsidy programmes of the developing country signatories which they have not committed themselves to reduce or eliminate, in order to examine their compatibility with the obligations of the agreement.

74. The draft agreement introduces the concept of counter-measures other than countervailing duties. Although traditional countervailing duties may be sufficient to offset injurious effects of subsidized imports of a domestic industry in the importing country, such duties would not be efficient as counter-measures for a country whose exports are displaced on a third-country market by subsidized exports from another country. Therefore, the concept of counter-measures is intended to offset this last category of injurious effect.

75. As to the imposition of countervailing duties against developing countries' exports which benefit from subsidies, provisions for special and differential treatment are included in the draft agreement only with respect to the Committee review procedure and not with regard to domestic injury investigations. However, even under the alternative committee review procedure, more favourable treatment for the developing countries is fairly limited. On domestic subsidies in the developing countries, the committee would not permit countervailing measures to be imposed by a signatory whose interests are adversely affected only in third-country markets. As regards export subsidies, the more favourable treatment is confined to the requirement that adverse effects resulting from export subsidies granted by developing countries should be demonstrated by positive evidence, whereas in the case of export subsidies applied by developed countries the presumption is made that adverse effects do result.

76. Obviously, differential treatment is not extended to reduce substantially the likelihood of the imposition of countervailing duties against developing countries' exports which benefit from subsidies. Regarding the domestic injury investigation procedure, the injury criteria are not sufficiently strict, nor is the definition of the injured industry drawn sufficiently narrowly. Under the draft agreement, no differential treatment would be extended to developing countries by requiring more strict injury criteria in the investigation of domestic or export subsidies applied by developing countries. As regards the alternative committee review procedure, the limited preferential treatment accorded is watered down by the fact that "adverse effects", which have to be proved as a prerequisite for countervailing action against export subsidies applied by developing countries, could be alleged and demonstrated by developed countries much more easily than strict domestic injury criteria. Furthermore, countervailing action against export subsidies would be possible under the agreement on the basis of displacement of exports of developed countries by the subsidized exports of developing countries in a third-country market. On the other hand, the use of domestic subsidies by developed countries on products directly competing with products of developing countries is still allowed. Finally, the draft agreement does not stipulate full exemption from countervailing duties for the least developed among the developing countries, nor partial exemption for other developing countries through the specification of allowable methods of subsidy.

77. In summary, the draft agreement falls short of true differential treatment in the use of subsidies by developing countries. In particular, the objective that the agreement would minimize the occurrence of countervailing duties against subsidized exports from developing countries is not attained.

5. *Government procurement*

78. The draft agreement on government procurement recognizes that the developing countries may need to adopt differential measures in order to achieve their economic and social objectives and recognizes the need to ensure transparency in procurement activities and to establish international notification, consultation, surveillance and dispute-settlement mechanisms in order to ensure enforcement and a balance of rights and obligations.

79. The draft code focuses on the MFN principle as well as national treatment, which means that all parties commit themselves to engage in government procurement practices with respect to suppliers in other countries on terms no less favourable than those afforded domestic or foreign suppliers.

80. The draft code states that technical specifications in government procurement are not to be designed to create unnecessary obstacles to trade. There shall be no reference to a particular trade mark, design, patent, specific origin or producer unless there is no alternative, and even then the words "or equivalent" are to be included in tender requests.

81. The draft code provides for open, selective and single tendering systems. In the case of selective tenders the number of suppliers invited to participate is to be as large as possible and selected in a fair and non-discriminatory manner, with lists of qualified suppliers published annually together with eligibility requirements and product information. Qualification procedures are to be equitable and not subject to undue delay. Time-limits are to be sufficient to allow foreign suppliers to bid, and any significant information given to one prospective supplier is to be given to all.

[16] For a detailed analysis, see "Export subsidies, countervailing and anti-dumping duties and the developing countries: report by the UNCTAD secretariat" (TD/B/C.2/R.6), paras. 5-14.

82. Additional provisions of the draft code cover single tendering, which is not to discriminate against foreign suppliers but may be used if open or selective tendering fails to provide a satisfactory result from a technical or competitive standpoint or in case of urgency. Each contract award is to be recorded, with full details to be used if required during the dispute-settlement procedures set out in the code.

83. Full disclosure of the award includes identifying the successful bidder and outlining the reasons why an unsuccessful tender was rejected, why a supplier was excluded from eligibility lists, or why a supplier was not permitted or invited to tender. A contact point is to be established by each procurement entity to respond to governmental inquiries that have not been satisfactorily answered.

84. Enforcement of the code's provisions centres on a committee on government procurement, composed of representatives from all parties to the draft agreement, assisted by *ad hoc* panels and working parties for investigative and related tasks. Complaints hearing-and-review procedures are to be established for dispute settlement. If dispute settlement between two parties is not possible, the committee can serve on request as an adjudicating body or, if this too is unsuccessful, the committee may establish an independent and non-partisan panel of experts to investigate the dispute and to report its findings and/or recommendations as expeditiously as possible.

85. With respect to developing countries, the draft agreement recognizes their balance-of-payments problems and infant-industry needs and the existence of industries wholly dependent on the government sector. Signatories would agree to facilitate developing-country exports and to include in their offers entities which purchase products of specific export interest to developing countries. The developing countries would be allowed to negotiate mutually acceptable exclusions from the agreement's rules on national treatment with respect to certain entities or products that are included in their schedules of entities if this can be justified on development grounds. Additional derogations would be possible in the context of regional or global arrangements among developing countries which are not disapproved by GATT, including common industrial development programmes. However, derogations under the agreement by developing countries would be subject to periodic review by the signatories, with the intention of progressively bringing them into full compliance.

86. As part of special and differential treatment, all signatory developing-country suppliers would be granted assistance regarding the solution of technical problems in specific contracts and related matters. Individual or joint information centres would be set up by developed-country signatories and charged with providing assistance to suppliers in developing-country signatories or in any least developed country concerning government procurement rules, procedures and practices as well as goods subject to such procurement. Suppliers from the least developed countries are to receive assistance in the submission of tenders, the selection of products and compliance with technical requirements. Products originating from least developed countries may be granted full benefits under the agreement even if the countries concerned are not signatories. The provisions on special and differential treatment would be reviewed annually and subjected to a major reassessment every three years, with particular attention to the above-mentioned exclusions and derogations.

87. Measured against the benchmark of Conference resolution 91 (IV), which singled out government procurement for special mention, the draft agreement on government procurement appears of mitigated value to developing countries. The commitments to national treatment, transparency, access to information and dispute-settlement procedures contained in the agreement would serve to facilitate substantially access to government procurement in developed countries by developing-country suppliers. Of particular importance is access to procurement information and assistance in effective tendering. Technical assistance would also be granted under the terms of the agreement to developing-country signatories and to all least developed countries, and national or joint information centres would be established to improve the flow of information. Developed-country signatories would commit themselves to facilitating developing-country exports in their government procurement activities, but the exclusion of customs duties in the evaluation of bids would be limited to the GSP treatment for the developing-country beneficiaries.

88. The main shortcoming of the draft code as regards developing countries is that the measures in their favour do not go beyond national treatment to accord special and differential treatment. Developing-country suppliers are not on the same footing as other third-country suppliers in the awarding of contracts and thus are not accorded special and differential treatment such as could have been provided through the exclusion of their products from import charges and customs duties in the consideration of bids by government procurement bodies.

89. Another major weakness of the draft code is the uncertainty surrounding the extent of coverage of the various provisions. The code is meant to apply to certain entities, which themselves are subject to ongoing negotiation amongst signatories. Only when agreement is reached on the entities concerned will the real scope and potential benefits for developing countries be known. The incorporation of a high threshold value for government purchases under the code would also work to the disadvantage of developing countries.

90. Lastly, the national treatment provisions of the draft agreement may be seen as inequitable in that they fail to take the special needs of developing countries' balance-of-payments, structural and employment problems fully into account. As noted, special and differential treatment in the draft agreement would be limited to strictly controlled exclusions from national treatment negotiated between individual developing countries and the committee on government procurement. Any derogations would have to be reviewed periodically, and the developing countries would be expected to assume progressively their full obligations under the agreement.

91. In general, from the point of view of the economic interests of developing countries, the draft agreement falls considerably short of expectations. Exclusions from the national treatment provisions are highly restrictive. The commitment to employ government procurement to promote developing-country exports is vague and lacking in concrete proposals. The technical assistance provisions are likewise vague and without specific implementational proposals, and it is unclear how they will resolve the problems

of developing-country suppliers with respect to financial guarantees or technical qualifications. The agreement does nothing to lessen the use of tied aid, which substantially reduces the real value of development assistance and is itself distortive of international trade. The agreement does not appear to go far enough to promote open tendering, which would be likely to offer developing countries improved prospects of successful bidding.

C. Safeguards

92. Paragraph 3 (*d*) of the Tokyo Declaration states that the multilateral trade negotiations are to "include an examination of the adequacy of the multilateral safeguard system... with a view to furthering trade liberalization and preserving its results". Conference resolution 91 (IV) proposes in paragraph 15 (*o*) "exemption of the developing countries, in principle, from the application of safeguard measures" as one form of special and differential treatment in favour of these countries. The developing countries jointly stressed in the Arusha Programme for Collective Self-Reliance and Framework for Negotiations that the main provisions of the draft code on safeguards should include that safeguard actions be taken on a MFN basis, under strictly defined conditions of market injury or threat thereof, and should not be used to discriminate against the developing countries. They rejected the concept of unilateral selective actions, stressed the need to bring under the discipline of the code so-called "voluntary export restraints" and "orderly marketing arrangements", and demanded that there be special and differential treatment for the developing countries in the context of the code.[17]

93. However, many developed countries appear to have completely different goals. Unlike certain other issues being dealt with in the multilateral trade negotiations, the safeguard negotiations do not simply relate to the extent to which developing country interests and concerns should be incorporated in a code, but have potential ramifications and implications of much more fundamental importance; the question is whether the instrument itself will represent an effective legal mechanism for combating protectionism or whether, on the contrary, it will provide the legal framework for a general and widespread proliferation of restrictive measures against the exports of developing countries and lay the foundation for a system of "organized markets" serving to freeze the present pattern of world trade and production and rendering vain all hopes of expanding developing countries' exports.

94. Despite the importance attached by most participants to an agreement on safeguards in the multilateral trade negotiations, profound divergencies on some key issues, notably on the question whether and under what circumstances selective application of safeguards might be allowed, continue to block the finalization of a text. While several drafts of a safeguards code have been under consideration, compromise texts on the most controversial issues remain to be elaborated.

95. The main elements of the safeguards code under discussion relate to determination of injury, conditions for imposition and application of safeguards (e.g., temporary and degressive application), the nature of safeguard action, the modalities of response to safeguard action (such as retaliation and compensation) and notifications, consultations and dispute settlement procedures and multilateral surveillance.

96. As reflected in the Arusha Programme, developing countries have taken a firm and common position with regard to the selectivity issue, their key objective being to ensure that safeguard measures would be applied on a global basis without discrimination as between sources of imports, i.e. in accordance with existing GATT rules. The only departures from the principle of non-discrimination acceptable to developing countries would be to favour developing countries that are small suppliers or new entrants to the market in question and thus under no circumstances permit selective action against individual developing countries. These principles directly conflict with the approach of many developed countries, some of which have consistently advocated unfettered selectivity.

97. Closely related to the selectivity issue is the question of the so-called voluntary export restraints, which it is proposed to allow under the safeguards code. Some developed countries rely predominantly upon this particular safeguard mechanism today and would not accept being debarred from this possibility under a safeguards code. The main objective of developing countries in attempting to bring export restrictions under the discipline of the code is to ensure that export restraints are really voluntary; thus they should not be the result of foreign economic pressure or threat of punitive action, unjustifiable in terms of existing legal rights and obligations. While the question of the treatment of voluntary export restraints remains to be settled, it does not appear that the contemplated safeguards code would supersede or replace all previously negotiated agreements of a safeguard nature, e.g. the Multifibre Arrangement.[18] Thus a large part of safeguard action in areas of special export interest to developing countries will in any case remain outside the provisions of the code.

98. The need for strict and precise criteria with regard to the concept of "serious injury" is generally recognized. A key concern for developing countries, however, is that the indicators to be taken into account are not such as to create a bias against imports from developing countries merely by virtue of their comparatively low cost or prices. The injury criteria of the draft code are vague, however, and the appropriateness of some of the indicators mentioned, although no single one is supposed to give decisive guidance, would indeed appear questionable.

99. Developing countries had as one of their basic objectives to obtain recognition of the principle that safeguard action against their exports should always be accompanied by adjustment assistance measures in the importing country and that the safeguard action be time-bound and progressively liberalized. While the draft code envisages that safeguard measures be time-bound, without however specifying a fixed time limit, and that they be progressively liberalized over their duration, the proposals for accompanying adjustment measures appear to have been rejected by developed countries.

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[17] See vol. I, annex VI, sect. III, item 9 (*b*), para. 4 (*d*), of the provisional agenda of the Conference.

[18] See foot-note 12 above.

100. Another unsettled issue relates to the right to take retaliatory actions in response to safeguard measures and the question of whether and under what circumstances compensation might be offered. While the existing right under article XIX of GATT to suspend equivalent concessions is reconfirmed in the draft code, it is also implied that this right would be relinquished in cases where the safeguard action is found to be in conformity with article XIX. Developing countries, however, have continually maintained that they should receive compensation (one form being financial payment) for damage caused to their exporting industries by safeguard actions taken by developed countries. At the same time they have recognized that their retaliatory powers are extremely limited and that any compensation they could obtain would have to be derived as a matter of right, not through the exercise of threats. The proposal for a firm commitment on the part of developed countries has, however, not been accepted.

101. Special and differential treatment is another of the main outstanding chapters of the code. Earlier proposals by developing countries for complete exemption from safeguard measures were emphatically rejected by developed countries. Even subsequent considerably weaker formulations—for example, declarations of intent on the part of developed countries to make particular efforts to refrain from imposing safeguard measures on the import of products of special interest to developing countries—were subject to "graduation" clauses, implying that any "differential" treatment granted could be withdrawn from a developing country judged to have moved substantially up the scale of economic development or to have become internationally competitive in the product. A text on this important part, which is linked to the question of adjustment assistance measures and the proposals made by developing countries in that regard, remains to be elaborated.

102. In addition to the above issues, a number of important legal questions related to the safeguards code remain unanswered: for example, whether it will be applied only as among signatories and if so how it might affect the existing rights of non-adhering contracting parties to GATT, and the question of whether and on what conditions non-GATT countries may be allowed to join the agreement should they so wish.

103. To sum up, while a number of shortcomings of the draft code as it stands can be identified from the point of view of developing countries' objectives and interests, such as its weak injury provisions and the absence of any commitments on the part of developed countries to undertake domestic adjustment assistance measures, it is as yet hardly possible to form an over-all judgement on the code, given that most of the crucial issues remain to be settled. As mentioned above, it is still not even certain whether there will be an agreement at all in this area of such vital importance to developing countries.

104. The aim of the negotiations on safeguards, as set forth in paragraph 3 (*d*) of the Tokyo Declaration, is to achieve an improved multilateral safeguard system, to further the objective of trade liberalization and to preserve its results. They should also be undertaken in the context of the commitment to provide special and differentiated treatment for developing countries wherever feasible and appropriate. However, many developed countries appear to have completely different goals, aimed at creating an arrangement amounting to an extension of the Multifibre Arrangement on a universal basis.

D. Tropical products

105. The Tokyo Declaration designates tropical products as a "special and priority" sector in the multilateral trade negotiations, thus recognizing the importance of these products to the trade of the developing countries. Conference resolution 91 (IV) stressed the same approach to the tropical products sector.

106. In the view of the developed countries the negotiations on tropical products were essentially completed when, on 30 December 1976, it was announced that trade concessions by EEC and six other developed countries would enter into effect from 1 January 1977, followed shortly after by concessions of three other developed participants. These were described as the "first concrete results" of the multilateral trade negotiations. Since these actions, the Group on Tropical Products has had no further meetings, with the exception of the meeting in October 1978 at which the developing countries requested that the negotiating group on tropical products be convened, as the concessions which were implemented fell far short of their expectations. This request has so far had no follow-up owing to the lack of will on the part of the developed countries. Some issues of the negotiations in tropical products have been shifted and pursued in other areas of the negotiations—for example, the code on agriculture, and non-tariff measures such as the code on standards.

107. The majority of concessions implemented were tariff concessions. The developing countries' request lists covered 5,374 tariff line items totalling imports valued at $16.2 billion. In response to these requests, the offers of EEC and the nine other countries[19] covered 850 tariff line items, relating approximately to $3.3 billion of imports from developing countries of which $2.5 billion is accounted for by the EEC offers. Only $1.5 billion, however, would benefit from duty-free offers, and the remainder of the offers involve tariff reductions of from 20 to 60 per cent. The average tariff reduction across all tropical products on which the developing countries requested reductions was only about 15 per cent, owing in part to the lack of any tariff reductions on many requested products. Thus, less than 30 per cent of the requests (in terms of trade coverage) have found a place in the global offers made on tropical products and less than half of the offers provide duty-free entry. Of the tariff concessions implemented, most of these reductions have been extended under the GSP rather than on a MFN basis. Nearly all duty-free access has been granted under the GSP, whereby concessions are not bound and are therefore less secure. In the area of non-tariff barriers, commitments are of a very limited nature and only a few concessions have been made on non-tariff measures affecting trade in tropical products.

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[19] The United States of America has tabled offers of 147 tariff lines and refused to implement its concessions until the developing countries offer reciprocal concessions, in clear contradiction to the principle of non-reciprocity. Two developing countries (Mexico and India) have concluded bilateral agreements with the United States on this basis in the area of tropical products.

108. The developing countries expected to gain substantial benefits from the multilateral trade negotiations by increasing their exports of tropical products, since this is an area which readily lends itself to special and differential treatment. The bulk of world production of tropical agricultural products occurs in developing countries so that the potential injury to import-competing producers in developed countries caused by special concessions would in most cases have been minimal. This area is of particular importance to the least developed among the developing countries, which rely heavily on tropical products for most of their export earnings.

109. Developing countries have been dissatisfied with the tropical products concessions implemented and believe that progress was hampered in part by the bilateral nature of most negotiations. They have been especially frustrated by the failure to achieve any concessions on important products of special export interest, including semi-processed and processed tropical products. They desired full duty-free access to developed country markets for the export of tropical products, the removal of non-tariff barriers to tropical product imports, and recognition of the objective of non-reciprocity for these concessions.

110. No substantial progress was made in the negotiations toward achieving these goals in this "special and priority" sector. Rather, the developing countries have been forced to look to the outcome of negotiations in other working groups for additional improvement of access to markets for tropical products in the developed countries. Developing countries have recently taken a strong stand in regard to tropical products by pressing for special and priority treatment, as agreed in the Tokyo Declaration, and in regard to the importance of further negotiating efforts in this area up to the conclusion of the multilateral trade negotiations.

E. Agriculture

111. The Tokyo Declaration stated, in paragraph 3 (*e*), that the negotiations should aim to "include, as regards agriculture, an approach to negotiations which, while in line with the general objectives of the negotiations, should take account of the special characteristics and problems in this sector". These negotiations have been entrusted to the Group on Agriculture, which in turn established three subgroups to deal with meat, grains and dairy products, while negotiations on other agricultural products, both in regard to tariffs and non-tariff barriers, have been undertaken on the basis of a request/offer procedure adopted in July 1977. Clearly the most sensitive issues throughout the multilateral trade negotiations concerned agriculture. The disagreements between the major developed countries related to the treatment of agriculture in the negotiations and resulted in the slowing down of progress not only in the context of the Group on Agriculture itself, but also in other areas of the negotiations. The basic approach of some developed countries was that liberalization in trade in agriculture had fallen far behind owing to the failure of earlier GATT negotiating rounds to deal adequately with the barriers to trade in agriculture, and that consequently it was essential that the package resulting from the multilateral trade negotiations provide for a meaningful improvement in market access for agricultural products. On the other hand, other participants were negotiating under terms of reference of a detailed and constraining nature, the main concern being to avoid making concessions which would interfere with the operations of the mechanisms of domestic agricultural support programmes.

112. The developing countries' objective was to gain improved terms of access for the wide variety of their agricultural exports, most of which faced serious, and in certain cases prohibitive, barriers in developed countries. Given the supposed "special and priority" nature of the tropical product sector, most developing countries initially chose to pursue this objective in that context.

113. The results of the negotiations on agricultural products to date can be summarized as follows:

(*a*) Reduction in customs duties on certain tariff lines (including improvements in the GSP); the formula was not applied to CCCN 1-24 by one developed country;

(*b*) Extremely limited and often heavily qualified commitments with regard to non-tariff measures affecting trade in individual agricultural items;

(*c*) Multilateral "arrangements" on dairy products and bovine meat; the continued negotiations on grains, which were transferred from the multilateral trade negotiations to the International Wheat Council and then to UNCTAD, have currently been suspended without agreement;

(*d*) A "Multilateral agricultural framework": this draft text was presented to the Group on Agriculture for its consideration by the two major developed participants which had negotiated bilaterally on the subject. It is aimed at providing a follow-up forum to the multilateral trade negotiations within GATT by the establishment of an international agriculture consultative council. Regular consultations would be held by the council whereby participating countries could work towards increased international co-operation in matters concerning domestic farm and food policies and the development of international trade in agriculture. The Council would also follow the implementation of all international agreements concluded in the multilateral trade negotiations.

Dairy products

114. The Sub-Group on Dairy Products of the Group on Agriculture has drafted an International Dairy Arrangement. The Arangement establishes minimum prices for milk powders, butter, milk fat, and cheese. Commercial trade is prohibited at prices below the established minima. An International Dairy Products Council, to act as a consultative and informative exchange mechanism, is also created. The intention is that such consultation will result in the identification of remedies for market imbalances—imbalances which hitherto have often resulted in serious distortions of international trade.

115. To the extent that developing countries are active participants in the marketing of dairy products, whether as importers or exporters, they should benefit from international attempts to bring more stabilization to this sector. Special and more favourable assistance is provided for developing countries in the area of technical assistance, and in the furnishing of dairy products as food aid to developing countries.

Meat

116. In view of the nature and heterogeneity of the world beef market, a great number of countries felt that what was required in the negotiations in this sector was not an international agreement but a less ambitious objective. A strengthening of the present machinery of information, market surveillance and consultation could be sufficient to avoid future critical situations in the international beef trade.

117. After a number of sessions, the work of the Sub-Group on Meat concentrated on the text of a draft arrangement regarding bovine meat. Under the arrangement, a Meat Council with a largely consultative role was created with the aim of reaching an agreement among all the participants on objectives and provisions with regard to their production and trade in meat. This Council will replace the GATT International Meat Consultative Group.

118. The results of the negotiations on meat are certainly far from the objectives that had initially been envisaged, at least by a great number of exporting countries and, in particular, the developing countries. From the point of view of the latter, the results so far from the negotiations on beef can be regarded as minimal. The multilateral solution to meat problems advocated by them was largely ignored, and negotiations on substantive issues were conducted on a purely bilateral basis. The crucial issue of health and sanitary regulations was not properly tackled in the Sub-Group on Meat; consequently, this issue will continue to represent one of the biggest hurdles to a balanced expansion of beef and veal exports from developing countries. Moreover, the concessions on meat that may be obtained through bilateral negotiations by certain exporting developed countries from certain major importers such as the United States of America, Japan and Canada, and which would under prevailing GATT practices extend to all exporters through the MFN principle, would not lead to any benefit for those developing exporters which are banned from these markets by health and sanitary reasons. Conversely, however, the concessions that developing-country exporters may have obtained in bilateral negotiations with their trading partners—for example, ECC—will also automatically accrue to their developed counterparts who face no problems of access through health clauses.

119. No meaningful provisions for differential treatment or additional benefits for developing countries were contemplated in these negotiations. The long-term effect of a strengthening of the machinery of information, co-operation and consultation among exporting and importing countries through the Meat Council that may emerge on issues affecting production, consumption and trade in meat is still to be seen.

Grains

120. Since the Sub-Group on Grains last met in May 1976, multilateral discussions and negotiations on grains have proceeded outside GATT, in the International Wheat Council and in the United Nations Conference to Negotiate an International Arrangement to Replace the International Wheat Agreement, 1971, as Extended.[20] No further meeting of the Sub-Group has yet been scheduled following the adjournment of the Conference on 14 February 1979. Some requests and offers on liberalization measures in respect of grains are understood to have been made in bilateral and plurilateral negotiations, but final results are not yet known.

[20] See *United Nations Wheat Conference, 1971* (United Nations publication, Sales No. E.71.II.D.10).

F. Sector approach

121. Progress in the sector approach as a complementary negotiating technique has so far been limited to fact-finding studies. The main proponent of the sector approach abandoned its position, apparently owing to its satisfaction with the tariff and non-tariff measures offered by its main trading partners. However, an agreement has been negotiated to cover the aircraft sector.

G. International framework for the conduct of world trade

122. The Tokyo Declaration provides in paragraph 9 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". The issues under examination in the trade negotiations with regard to the institutional framework are of vital importance to the developing countries in view of the basic inadequacies of the present GATT instrument to provide for their trade and development needs.

123. The preliminary results of the negotiations on an international framework are reflected in various texts relating to:

(*a*) Examination of the legal framework for the extension of differential and more favourable treatment in relation to GATT provisions, in particular the MFN clauses; applicability of the principle of reciprocity in trade relations between developed and developing countries for the purpose of future trade negotiations; and fuller participation of the developing countries in an improved framework of rights and obligations under the General Agreement, taking into account their development needs;

(*b*) Safeguard action for balance-of-payments and economic development purposes;

(*c*) Consultations, dispute settlement and surveillance procedures under GATT articles XXII and XXIII;

(*d*) Examination of existing GATT rules concerning the application of restrictions that affect exports.

124. A draft declaration on item (*b*) above contains provisions to deal with the question of safeguard action by developing countries for balance-of-payments and development needs purposes. For example, the obligation of a developed country to take account of developing-country export interests in determining the incidence of its safeguard action is mentioned. Also, provision is made to the effect that a developed country may exempt products of export interest to developing countries from such action. The declaration also provides for notification and consultation procedures.

125. The developing countries failed in their major objective of obtaining a general exemption from restrictive

balance-of-payments measures taken by developed countries. The provisions merely state that a developed country may exempt products of interest to developing countries.

126. Draft texts on safeguard action for development purposes are under negotiation. Apart from recognition of relevant GATT provisions covering this matter, the text extends the definition of the economic development process to include the establishment of particular industries and/or development or modification of existing production structures with a view to achieving fuller and more efficient use of resources. Recognition is also given to the possibility for developing countries, under certain conditions, to deviate from the notification and consultation procedures in taking safeguard action for development purposes. However, these provisions, which are mainly of a procedural character, fall far short of the objectives of the developing countries and go only slightly beyond the obligations provided in GATT articles.

127. A draft text concerning item (*a*) in paragraph 123 above contains provisions which may permit differential and more favourable treatment for developing countries in specific cases where such treatment has already been granted on a *de facto* basis, i.e. the generalized system of preferences, non-tariff measures multilaterally negotiated in GATT, and preferential tariff arrangements among developing countries (regional and global). The text also prescribes the granting of special and differential treatment subject to the condition that its application does not create difficulties for other GATT contracting parties or constitute an impediment to further reduction in trade barriers.

128. One provision of particular concern to the developing countries pertains to the "principle of graduation", i.e. that developed countries expect that the capacity of developing countries to make contributions or negotiated concessions would improve with the progressive development of their economies and the improvement in their trade situation. This principle is implicitly included in the provisions being elaborated on subsidies and countervailing duties and safeguards, in that any special and differential treatment granted by developed countries will be subject to withdrawal with progressive economic development. The developing countries are seriously concerned about the acceptance of this principle and reject its application. Not only are there no universally accepted criteria for such categorization, but the principle would permit developed countries to discriminate among developing countries in an arbitrary and unilateral manner.

129. The provisions of the draft text on an international framework pertaining to differential and more favourable treatment for developing countries are restricted in scope and do not constitute a firm commitment by the developed countries to accord such treatment to developing countries. Differential treatment in regard to non-tariff measures is confined to that provided for in the codes. Similarly, no commitment is made for the security of GSP rates and preferential margins.

130. The draft text on notification, consultation, dispute settlement and surveillance contains general provisions for notification, if possible on a prior basis, of trade measures affecting the operation of GATT; the setting up and operation of panels to adjudicate disputes; regular and systematic review of developments in the trade system; and technical assistance to developing countries. These may benefit developing countries, particularly as regards dispute settlement and conciliation. However, the provisions regarding technical assistance would need to be stated more precisely if they are to be of practical value to the developing countries in dispute settlement matters.

131. The question of application of export restrictions, which was strongly promoted by certain developed countries, has been deferred until after the conclusion of the multilateral trade negotiations. The developing countries felt that the proposals put forward by the developed countries in this area would extend obligations imposed on their exporters and fail to recognize the developing countries' needs for promoting industrialization and their right to exploit their natural resources.

132. In general, the results of the framework negotiations can only be judged as disappointing for the developing countries. The main objective—the establishment of a permanent legal framework for differential and more favourable treatment in accordance with relevant provisions of the Tokyo Declaration—has not been achieved. Although the "decisions" and "understandings" emerging from the framework negotiations represent some improvement of part IV of the General Agreement, when seen in the light of the aims of the Tokyo Declaration and the stated objectives of the developing countries, these results can only be considered as frustrating and incomplete from the point of view of the interests of the latter and probably demonstrate the futility of attempting to reform the international trading rules from within the GATT system itself.

CHAPTER IV

Special treatment for the least developed countries

133. The Tokyo Declaration states that the particular situation and problems of the least developed countries shall be given special attention in the multilateral trade negotiations and stresses 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. The implementation of this particular provision of the Declaration has been impeded by the slow progress in reaching agreement on the various issues in favour of the developing countries in all areas of the negotiations. Consequently, there has been little consideration of the ways and means by which the above objectives could be translated into concrete form to provide the desired benefits for the least developed countries.

134. The least developed countries have proposed the adoption of a protocol relating to their trade, with the following provisions:

(*a*) Each developed country shall accord to the commerce of all the least developed countries treatment no less favourable than that accorded to any other country, including its partners in a customs union, free trade area, regional grouping, association or preferential arrangement;

(*b*) All products originating in and exported from any of the least developed countries shall, upon their importation into the territories of each developed country, be exempted from ordinary customs duties, all other duties or charges imposed on or in connexion with importation, and from the trade barrier effect of any remaining non-tariff trade measures;

(*c*) To the extent that any developed country, in exceptional circumstances, is not in a position immediately to grant such treatment to any particular product or products, it shall notify such temporary deviation to the contracting parties and to the least developed countries concerned, indicating the justification therefor and the maximum period during which such deviation may be maintained;

(*d*) The provisions of subparagraphs (*a*) to (*c*) above shall be deemed to have been, *mutatis mutandis,* included in, and to constitute an integral part of, each of the codes and agreements adopted during the multilateral trade negotiations in addition to any specific provisions concerning least developed countries that may be included in such codes and agreements. They shall likewise be deemed to have been incorporated in any similar multilateral codes or agreements that may be adopted in the future;

(*e*) Developed countries do not expect from the least developed countries any reciprocity whatsoever for the commitments undertaken in subparagraphs (*a*) to (*d*) above;

(*f*) A standing committee on the least developed countries shall be established. The committee shall meet as necessary, but at least once each year to review the notifications mentioned in subparagraph (*c*) above, to formulate recommendations thereon and generally to supervise the implementation of the above provisions. The committee shall formulate its own guidelines on the manner in which it shall carry out its functions.

135. The interests of the least developed countries as outlined in the above paragraphs have not been taken into consideration in the draft texts, nor have their detailed proposals on specific codes and an over-all protocol been accounted for in a manner which would be translated into substantial benefits for their trade and consequently their economic development.

CHAPTER V

The role of UNCTAD and its responsibilities following the conclusion of the multilateral trade negotiations

136. The role of UNCTAD in the multilateral trade negotiations has been, in particular, to follow closely the developments and issues in the negotiations of particular concern to the developing countries, and, in co-operation with the regional commissions, to give necessary technical assistance to developing countries to facilitate their effective participation in the negotiations.[21] These tasks result from several decisions and resolutions, particularly conference resolutions 82 (III) and 91 (IV) and General Assembly resolution 3310 (XXIX). The UNCTAD secretariat report on developments in the multilateral trade negotiations submitted to the fourth session of the Conference[22] discusses the role of UNCTAD in assisting the developing countries in preparing for and participating in the multilateral trade negotiations through the proposals and suggestions of the Trade and Development Board and its subsidiary bodies concerned, through its technical assistance activities, and through the supportive role of the Secretary-General of UNCTAD.

A. Evaluation of the results of the negotiations

137. In pursuance of his mandate, the Secretary-General of UNCTAD has presented progress reports to relevant UNCTAD bodies, in particular to the Conference at its fourth session, on developments and issues in the multilateral trade negotiations of particular concern to developing countries. For the fifth session of the Conference, the Secretary-General of UNCTAD is requested to present a report, and the Conference is called upon to make an evaluation of the negotiations and to make recommendations arising therefrom. Furthermore, the General Assembly, in resolution 33/199, requested the Secretary-General of UNCTAD to report to the General Assembly at its thirty-fourth session on the evaluation of the negotiations carried out at the fifth session of the Conference, as well as the recommendations emerging therefrom.

138. In view of its timing, the evaluation contained in the present report is preliminary and tentative and has been made on the basis of information available while the negotiations were still in progress. The definitive evaluation can be made only after the final results are known. According to this preliminary evaluation, the multilateral trade negotiations seem unlikely to result in substantial gains for the trade of developing countries because the negotiations have not covered many issues of importance to those countries and because of the lists of exceptions proposed regarding items of principal export interest to them and the absence of any real attempt to provide special and differential treatment. Therefore, the basic problems relating to the trade and development of the developing countries will remain and must be addressed by appropriate international bodies. In this context, the Conference at its fifth session may wish to consider the future role of UNCTAD in solving these problems.

139. The Conference may thus wish to give a mandate to the UNCTAD permanent machinery to carry out a definitive evaluation of the multilateral trade negotiations when appropriate and feasible. In such an evaluation it would be desirable and appropriate for the final outcome of the negotiations to be assessed not only in the context of the stated aims and objectives of the Tokyo Declaration but also in the broader perspective of the various decisions taken by the General Assembly, in particular the resolutions on the Programme of Action on the Establishment of a New International Economic Order, on the Charter of Economic Rights and Duties of States and on development and international economic co-operation.[23]

[21] See Conference resolution 91 (IV), para. 16 (*a*) and (*b*).

[22] See *Proceedings..., Fourth Session,* vol. III, *Basic documentation* (United Nations publication, Sales No. E.76.II.D.12), document TD/187.

[23] General Assembly resolutions 3202 (S-VI), of 1 May 1974, 3281 (XXIX) of 12 December 1974 and 3362 (S-VII) of 16 September 1975.

B. Action towards solving outstanding trade-related problems

140. The main problem that will remain unresolved after the multilateral trade negotiations is the perpetuation of a world trading system which is increasingly unfavourable to the interests of the developing countries and unresponsive to their needs. This is reflected in the growing protectionist tendencies in the developed countries and in the proliferation of new trade restrictions adversely affecting developing countries' exports. To remedy this situation there is a need, in addition to trade liberalization, for a restructuring of the economies of the developed countries which could be promoted, *inter alia,* by appropriate adjustment assistance measures.

141. The problems arising from growing protectionism and the need for restructuring the economies of the developing countries are dealt with in other documents prepared by the UNCTAD secretariat.[24] These documents present a wide range of suggestions and recommendations on types of mechanisms and measures for dealing with short-term and long-term aspects of trade relations between developed and developing countries. These suggestions and recommendations are of relevance to the activities of UNCTAD in the field of international trade in the period following the conclusion of the multilateral trade negotiations.

142. In addition, the Conference might wish to adopt a set of basic principles to govern the conduct of trade relations between developed and developing countries in general, and future trade negotiations in particular. To this effect, an international agreement within the universal framework of UNCTAD could be reached on the following, or similar, principles:

(*a*) Differential measures, special and more favourable treatment to be applied in favour of developing countries in all areas of commercial relations, including the implementation of preferential tariff schemes and of codes governing non-tariff measures and the use of safeguards and subsidies;

(*b*) Explicit recognition of non-reciprocity in favour of developing countries in the reduction or removal of tariff and other barriers to trade;

(*c*) Special procedures for the negotiations between developed and developing countries to be instituted, including measures to ensure, where appropriate, the multilateral character and transparency of future trade negotiations;

(*d*) Liberalization of the modalities and conditions whereby developing countries can take remedial measures for balance-of-payments or economic development reasons;

(*e*) Recognition of the need for special attention to be given to the problems of the least developed among the developing countries, and special treatment to be accorded these countries in the context of any general or specific measures taken in favour of the developing countries;

(*f*) Conduct of trade relations and application of all trade measures on a most-favoured-nation basis rather than on a selective basis.

143. The universal acceptance of these principles would not only provide a policy framework to govern trade relations between developed and developing countries but would also help ensure that such relations will result in more meaningful participation by the developing countries in the benefits of expanding world trade and production commensurate with their trade and development needs.

144. The draft international framework governing trade relations between developed and developing countries underlines the importance of technical assistance and calls for developing countries to be provided, individually or collectively, with such assistance through studies, reports and other substantive assistance, including organization of training courses and seminars. Technical support or assistance is an essential element for the successful participation of the developing countries in trade negotiations and should continue to be one of the main responsibilities of UNCTAD in this area. The UNCTAD secretariat should continue to assist the developing countries in future negotiations through, *inter alia,* the identification and analysis of specific issues and problems, the compiling of basic data concerning trade and trade barriers, the undertaking of studies of specific problems, and the provision of advisory services.

[24] See documents TD/226 and TD/230, reproduced in the present volume.

DOCUMENT TD/227/ADD.1

Addendum

[*Original: English*]
[*4 May 1979*]

1. Since the preparation of the report by the UNCTAD secretariat on the multilateral trade negotiations,[1] new developments have taken place which have resulted in the closure of the negotiations in most areas and the emergence of final texts and agreements on a number of elements. Two areas of the negotiations remain open—namely negotiations in the tariff field (until 30 June 1979) and negotiations on safeguards. The present document contains a short factual summary of recent events.

2. The Trade Negotiations Committee met on 11 and 12 April 1979 to examine the texts and agreements which emerged from the negotiations. A procès-verbal was drawn up by the Chairman of the Committee and was presented to the Committee at the close of its session. The procès-verbal was opened for signature as of 12 April 1979.

3. The procès-verbal lists the texts and agreements resulting from the negotiations:

(*a*) Agreement on Technical Barriers to Trade;

(*b*) Agreement on Government Procurement;

(*c*) Agreement on Interpretation and Application of articles VI, XVI and XXIII of the General Agreement on Tariffs and Trade;

(*d*) Agreement on Bovine Meat;

[1] Document TD/227 above.

(*e*) International Dairy Arrangement (two alternative texts);

(*f*) Agreement on Implementation of Article VII of the General Agreement on Tariffs and Trade (two alternative texts);

(*g*) Agreement on Import Licensing Procedures;

(*h*) Multilateral Agricultural Framework;

(*i*) Texts prepared by Group "Framework";

(*j*) Tariff Negotiations;

(*k*) Agreement on Trade in Civil Aircraft, prepared by a number of delegations;

(*l*) Agreement on Implementation of article VI of the General Agreement on Tariffs and Trade, prepared by a number of delegations (two alternative texts).[2]

4. By signing the procès-verbal signatories indicate agreement that the texts in respect of which they have signed embody the results of their negotiations and acknowledge that the texts may be subject to rectifications of a purely formal character that do not affect the substance or meaning of the texts in any way, except as otherwise indicated in the text on tariff negotiations. In addition to authentication of the results of the negotiations, signature indicates the intention of the representatives to submit the relevant texts or legal instruments to be formulated on the basis of the said texts to their respective authorities with a view to seeking their approval of, or other decisions on, the relevant texts or instruments. Representatives may indicate that their signature relates to certain of the texts listed or to all of them.

5. It is recognized in the procès-verbal that some representatives may not be in a position to sign the document immediately in relation to all or certain of the texts, and they are invited to do so at their earliest convenience. It is also recognized that representatives of participating least developed countries may need time to examine the results of the negotiations, in the light of paragraph 6 of the Tokyo Declaration, before signing the procès-verbal.

6. The representatives signing the procès-verbal agreed that the work on safeguards referred to in paragraph 3 (*d*) of the Tokyo Declaration should be continued within the framework and in terms of that Declaration as a matter of urgency, taking into account the work already done, with the objective of reaching agreement before 15 July 1979.

[2] Texts (*k*) and (*l*) are the result of negotiations only amongst the representatives of certain Governments identified in the documents.

AGENDA ITEM 10*

DOCUMENTS TD/228 AND ADD.1

Integrated Programme for Commodities. Review of implementation and follow-up action, including the ongoing preparatory work and negotiations

Report by the UNCTAD secretariat

DOCUMENT TD/228

[*Original: English*]
[*12 March 1979*]

CONTENTS

Introduction

1. In paragraph 3 of its decision 177 (XVIII), the Trade and Development Board requested the Secretary-General of UNCTAD to prepare a comprehensive report on the progress of work on the implementation of resolution 93 (IV) of the United Nations Conference on Trade and Development for review at the fifth session of the Conference. In paragraph 2 of its resolution 173 (XVIII), the Board requested the Secretary-General of UNCTAD to report in greater detail on the progress in the preparatory work and negotiations, and particularly on the key problems encountered therein, with a view to facilitating the preparation of draft proposals in the light of paragraph 4 of section IV of resolution 93 (IV) and with a view to assisting Governments in attaining an over-all view of progress in the implementation of the Integrated Programme for Commodities. The present report is submitted in response to those decisions.

2. The United Nations Negotiating Conference on a Common Fund under the Integrated Programme for Commodities is scheduled to reconvene from 12 to 16 March 1979. The results of this third session of the Conference will be available to the fifth session of the United Nations

* For the agenda, see vol. I, part three, para. 6.

Conference on Trade and Development.[1] The present report is confined to a review of the progress of work on individual commodities.

CHAPTER I

Status of preparatory work and negotiations

A. General assessment

3. The Integrated Programme for Commodities[2] was conceived as "a programme of global action to improve market structures in international trade in commodities of interest to developing countries",[3] "on the basis of mutual advantage and equitable benefits, taking into account the interests of all States, particularly those of the developing countries".[4] The adoption of the Programme was a recognition of the need for a new over-all and integrated approach to commodity problems, in contrast with the traditional piecemeal approach which had failed to yield satisfactory results. It represented a political commitment to enter into a major negotiating exercise aimed at international action to deal with the problems of commodities of export interest to developing countries.

4. As a departure from the earlier "commodity-by-commodity" approach, the Programme embodied several new features, which might be described as its "integrating elements". It provided for a common framework of agreed objectives and principles to guide the negotiations. The international measures required to achieve the objectives were identified. It was expected that the agreements to be negotiated under the Programme would be more multi-dimensional in character than had been the case in the past. The Programme laid down well-defined procedures and a time-frame for implementation. It identified 18 commodities of export interest to developing countries which together account for a little over 60 per cent of their exports of commodities, excluding petroleum.

5. In outlining the agreed objectives, the United Nations Conference on Trade and Development provided in its resolution 93 (IV) that

> With a view to improving the terms of trade of developing countries and in order to eliminate the economic imbalance between developed and developing countries, concerted efforts should be made in favour of the developing countries towards expanding and diversifying their trade, improving and diversifying their productive capacity, improving their productivity and increasing their export earnings, with a view to counteracting the adverse effects of inflation, thereby sustaining real incomes".[5]

Apart from these broad objectives, the resolution also listed certain specific objectives. These included the achievement of stable conditions in commodity trade; an increase in real export earnings of developing countries and protection from fluctuations therein; improvement in market access and reliability of supply; diversification of production and expansion of processing in developing countries; improvement in the competitiveness of natural products competing with synthetics and substitutes, and improvements in market structures and in the marketing, distribution and transport systems for commodity exports of developing countries, including an increase in their participation in these activities and their earnings from them.[6]

6. The adoption of the Integrated Programme gave rise to expectations that its implementation within the agreed time-frame would lead to the establishment of new international commodity arrangements and would thereby contribute to the attainment of the objectives referred to above. While progress has been made in the case of a few commodities, on the whole the results achieved so far fall short of these expectations, and the progress of work has not been as rapid as might have been expected in the light of the original time-frame.

7. The implementation of the Integrated Programme has called for massive efforts at the secretariat level as well as at the governmental and intergovernmental levels during the last two and a half years. The results of these efforts, and of related developments in other forums, need to be assessed against the background of the worsening position of developing countries in international trade in commodities. They continue to face serious problems due to violent fluctuations in commodity prices. In many cases, their terms of trade have seriously deteriorated over the past few years. There has been no significant improvement in access to markets for their products. Often new protectionist barriers have been raised. "Global action to improve market structure in international trade in commodities of interest to developing countries" remains a distant goal.

8. Of the commodities listed in Conference resolution 93 (IV) which were not already covered by international agreements before the resolution was adopted, only one—natural rubber—has so far been the subject of negotiations, and there is a good prospect that an international agreement on this commodity will be concluded soon. There is also an understanding in principle to work towards an international agreement on tea, with the focus on improved real export earnings, although recent progress has been slower than anticipated.

9. Since the adoption of the Integrated Programme, the International Sugar Agreement has been successfully renegotiated. However, a number of major consumers have either not joined or not ratified the Agreement and it has not yet become fully operational. The International Cocoa Agreement is in the process of being renegotiated, and it is to be hoped that the new agreement will be more effective in achieving the objectives embodied in the Integrated Programme. Improvements would also be needed in the international agreements on coffee and tin. The International Agreement on Olive Oil, which at present does not contain economic clauses, is to be renegotiated shortly.[7]

10. For a number of commodities, preparatory work under the Integrated Programme has reached a fairly

[1] For the reports on the first three sessions of the Negotiating Conference, see TD/IPC/CF/CONF/8, TD/IPC/CF/CONF/14 and TD/IPC/CF/CONF/19, respectively.

[2] See Conference resolution 93 (IV) of 30 May 1976.

[3] *Ibid.*, fifteenth preambular paragraph.

[4] *Ibid.*, eighth preambular paragraph.

[5] *Ibid.*, sect. I, preamble.

[6] *Ibid.*, sect. I, paras. 1-7.

[7] For a summary of recent developments affecting these and other commodities, see "The world commodity situation and outlook: report by the UNCTAD secretariat" (TD/B/C.1/207), chap. II.

advanced stage and it should be possible to pass relatively quickly to the negotiating phase. These include copper, cotton, jute, hard fibres and tropical timber. However, for some of these commodities, the discussions have not focused sufficiently on international agreements with economic provisions. The discussions in some preparatory meetings have not led to the identification of the nature and extent of the international action required. This is particularly true for the mineral commodities—manganese, iron ore and phosphates. In the case of vegetable oils, there are major constraints in the adoption of stabilization measures, which derive from the complexity of the problems facing a wide variety of competing products. For two of the commodities listed in Conference resolution 93 (IV) (bauxite and bananas) no preparatory meetings have yet been held.

11. In assessing progress in the implementation of the Integrated Programme, account should also be taken of developments in other forums which are relevant to the attainment of the objectives of the Programme. Discussions have continued in FAO on a number of agricultural commodities, such as tea, hard fibres and bananas. In the case of meat, consideration is being given, in the multilateral trade negotiations under GATT, to measures for the attainment of a number of objectives of the Integrated Programme. The GATT Arrangement regarding International Trade in Textiles is relevant to the objective of increased local processing of cotton in developing countries. Discussions in UNDP have led to agreement on the draft statutes of Jute International to deal with market promotion and research and development, although this body has not yet become operational. The proposal sponsored by UNDP, the World Bank and the Rockefeller Foundation to establish Cotton Development International, with similar functions, is being actively pursued. The recent improvements in the compensatory financing facility of IMF and the implementation of the Stabex scheme of the Lomé Convention[8] have made a positive contribution to the attainment of the objective of stabilizing export earnings embodied in the Integrated Programme, although these facilities do not fully meet the requirements of developing countries.

12. The question of international trade in commodities has also figured prominently in various international conferences, including summit meetings of both developed and developing countries. There have been repeated affirmations at the highest political level of the importance which Governments attach to international action aimed at improving the position of developing countries in world commodity trade. However, these general pronouncements have not yet been fully reflected in the attitudes adopted by many Governments in the negotiations which are under way. The complexity of the issues in the negotiations and the basic conflicts which they seek to resolve should not be underestimated. However, it is now being increasingly recognized that the resolution of these conflicts would be in the interest of all countries, both producers and consumers of commodities, whether developed or developing. The negotiations no doubt involve complex technical issues, but in the ultimate analysis success in dealing with the issues depends largely on political decisions and their resolution would call for determined efforts to translate the political commitments already undertaken into specific forms of international action.

B. Factors which have inhibited progress

13. A major factor which has inhibited progress under the Integrated Programme has been the continued hesitation of many Governments to accept commodity arrangements as an essential instrument for the attainment of the agreed objectives of the Programme. One of the fundamental objectives of the Programme is to provide greater stability and strength to commodity markets. For most of the commodities this calls for international action, such as the establishment of buffer stocks and the adoption of other measures in the framework of international commodity arrangements. Many countries are still reluctant to consider such action even for commodities for which it appears feasible and appropriate. An important reason for this reluctance seems to be opposition to commodity arrangements as such on the grounds that they would interfere with the so-called free play of market forces.

14. For a number of commodities, such as jute and jute products, sisal/henequen and copper, price instability has clearly been recognized as a problem and specific proposals have been put forward for the international measures required. Yet there is continued reluctance on the part of many Governments to commence negotiations for concluding stabilization arrangements.

15. In the case of some commodities, particularly minerals and metals, sufficient attention has also not been paid to measures other than those relating to pricing policy, such as research and development, market promotion, improvements in marketing and distribution systems, and the expansion of processing in developing countries. However, it should be recognized that, though arrangements that are limited in scope—covering, for example, research and development and market promotion—do represent progress, they do not, in most cases, go far enough in tackling the problems facing the commodity concerned.

16. With the adoption of the Integrated Programme, it was expected that there would be a departure from the earlier commodity-by-commodity approach and that participants in the negotiations on individual commodities would take into account the over-all benefits from the Integrated Programme as a whole. This expectation has not been fulfilled and there is still a tendency on the part of many Governments to adopt too narrow an approach and to attempt to resolve conflicting national interests solely within the negotiations on each individual commodity.

17. Another major factor which has contributed to slow progress in the implementation of the Integrated Programme has been the absence of a clear understanding with regard to the nature of the common fund. According to the original time-table, the negotiations on the common fund were scheduled for March 1977,[9] that is, at a fairly early stage of implementation of the entire Programme. The obvious expectation was that the early conclusion of the negotiations on the common fund would give an impetus to

[8] 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.

[9] See Conference resolution 93 (IV), sect. IV.

the negotiations on individual commodities. The continued uncertainty regarding the sources and mode of financing for international measures has impeded progress in reaching agreement on such measures.

18. In many cases progress towards the identification of international measures has been slowed down by the tendency to ask for time-consuming studies without necessarily relating them to specific forms of international action. This has often diverted attention from the immediate task of concentrating on specific measures and of preparing the basis for the negotiation of international arrangements.

19. Serious difficulties have been encountered on the question of the inclusion of certain processed products within the purview of stabilization measures. The commodities listed in the Integrated Programme[10] specifically include jute products and hard fibre products, in clear recognition of the fact that the problems faced by these products are closely related to the primary commodities concerned and that the international measures required should cover the products also. In the case of certain products, such as baler twine, the degree of processing involved is minimal and international trade is increasingly taking place in such processed form. Despite these factors, some developed countries have opposed the inclusion of processed products in stabilization measures on the grounds that in principle such measures should be confined to the unprocessed commodities.

20. Progress towards the identification of the international measures required for many commodities has been hampered by the difficulties which producing countries have encountered in putting forward specific proposals and in arriving at common positions. In some cases progress could not be achieved because important producing countries did not participate in preparatory meetings. Difficulties have also arisen in many cases because of differences among the consuming countries, in particular the inability of a few consuming countries to go along with proposals acceptable to the others.

C. Future work

21. The review of progress in the implementation of the Integrated Programme must be a forward-looking exercise aimed at instilling a greater sense of purpose and urgency into the future work. What is needed is decisive international action on a scale which would be commensurate with the goals and objectives which Governments have set for themselves and the hopes and expectations aroused by the adoption of the Programme. The discussions at the fifth session of the Conference should provide an opportunity for a fresh look at the highest policy level at the difficulties encountered so far and for agreement on ways and means of overcoming these difficulties so as to achieve more satisfactory results.

22. In assessing the prospects of achieving more rapid progress in future work under the Integrated Programme, it would be useful to draw certain lessons from the experience so far and in particular from the above analysis of the factors which have inhibited progress in the past. It is to be hoped that the early conclusion of the negotiations on the common fund will provide a much-needed impetus to the work on individual commodities. However, in the ultimate analysis the success of the efforts to give effect to the fundamental objectives of the Integrated Programme will depend on the extent to which negotiations on individual commodities lead to the establishment of new international arrangements on commodities of export interest to developing countries embodying international measures relevant to the specific features of each commodity. It is therefore important that Governments accept commodity arrangements or agreements as an essential instrument of international commodity policy and assume specific commitments to enter into negotiations aimed at the conclusion of such arrangements or agreements within a time-bound programme.

23. Some of the difficulties which have arisen in the discussions on individual commodities would continue to frustrate future efforts if they were to be pursued on a purely commodity-by-commodity basis, unless there is a fuller appreciation of their wider implications for the Integrated Programme as a whole. If the "integrated" nature of the Programme is to be preserved, Governments may wish to give consideration to assuming across-the-board commitments for negotiating international arrangements for a number of commodities within a specified time-frame. This might enable them to secure a better balance in the benefits to be derived by individual countries than would be the case if such commitments continued to be sought within the framework of discussions on each individual commodity.

24. On the basis of the preparatory work undertaken in the past two and half years, which in many cases has built on earlier discussions in different forums, it should now be possible for Governments to agree on a specific time-table of negotiations for the conclusion of international arrangements. For a number of commodities, the discussions in preparatory meetings under the Integrated Programme and in other forums have advanced sufficiently to enable Governments to make a judgement on the potential for moving to the negotiating phase. Besides the commodities which are already covered by international agreements (cocoa, coffee, olive oil, sugar and tin) or for which negotiations have already commenced (natural rubber), tea is the only commodity for which there is an understanding in principle to work towards an international agreement with economic provisions. There is a prospect for concluding an arrangement on meat, dealing mainly with access to markets and better market transparency, in the multilateral trade negotiations under GATT. In the case of cotton, there is a broad understanding that the stage of studies and analysis of price fluctuations has been completed and that further preparatory work should relate to the consideration of specific options relating to stabilization and of other complementary measures. For both jute and hard fibres considerable progress has been made in the identification of the problems facing the commodities and in drawing up lists of specific measures for research and development and market promotion to improve their competitiveness and to expand their consumption. Although the measures agreed so far do not go far enough to meet all the requirements of the producing countries, they would nevertheless contribute to the attainment of some of the objectives of the Integrated Programme. In the case of tropical timber, consensus has been reached on the possible elements that could be considered as a basis for an international arrange-

[10] *Ibid.*, sect. II.

ment; these include increased local processing, reforestation, forest management and research and development. In the case of copper, there would appear to have been a recognition that the institutional issues which were at the centre of earlier discussions could not be resolved on their own and that Governments should therefore prepare themselves for substantive discussions on specific measures. If the momentum of such discussions is maintained, it should be possible to make rapid progress towards the commencement of negotiations.

25. For other commodities it may take considerable time before a clear view emerges of the nature and scope of feasible international action. Governments might nevertheless wish to continue intergovernmental discussions with a view to arriving over the longer term at solutions to the problems facing the commodities.

D. Time-table and institutional framework

26. Under the original time-table embodied in Conference resolution 93 (IV), the negotiations on individual commodities under the Integrated Programme were to be concluded by the end of 1978. This time-table was subsequently extended to the end of 1979.[11] However, it is apparent from the progress so far achieved that the results likely to be attained by the end of 1979 will be insufficient, in terms both of the expectations and aspirations aroused by the adoption of the Integrated Programme and of the possibilities of international action, to give effect to the objectives of the Programme. It is hoped that the review of the progress in the implementation of the Programme at the fifth session of the Conference will result in agreement on additional international efforts to give fresh impetus to the negotiations. In that event, further time would be needed for holding the negotiating conferences required, and the negotiations would have to be continued beyond the end of 1979.

27. In order to maintain the momentum of the negotiations it is essential that the agreement on the programme of work for future negotiations be time-bound. It would therefore be necessary to set agreed target dates for the completion of the negotiations and to make appropriate institutional arrangements for reviewing the progress achieved in the negotiations in meeting these targets and for agreeing upon further programmes of work in the light of such review.

28. The institutional arrangements would have to be commensurate with the size and the content of the agreed programme of work for future negotiations. If Governments agree to embark upon a series of negotiations on a wide range of commodities of export interest to developing countries for which the potential of concluding international arrangements is already evident, this would be quite an ambitious undertaking and would require effective intergovernmental machinery to oversee the entire exercise. The *Ad hoc* Intergovernmental Committee for the Integrated Programme for Commodities was entrusted with this task by the Conference in its resolution 93 (IV). The *Ad hoc* Committee has met periodically to review the progress under the Integrated Programme and has adopted a number of decisions dealing with major policy issues which were aimed at achieving better progress.[12] A comprehensive report on the Integrated Programme was presented to the Trade and Development Board at its eighteenth session following a major review at which the chairmen of the preparatory meetings were present.[13] However, a great deal of the time and attention of the *Ad hoc* Intergovernmental Committee has had to be devoted to the routine task of setting the calendar of meetings. Governments may wish to consider whether this task could not be better handled through the consultation procedures of the Trade and Development Board so that the *Ad hoc* Committee could concentrate its attention on major policy issues, for which it could be convened as and when necessary.

29. As pointed out in another report by the UNCTAD secretariat,[14] sufficient attention has not been paid in the discussions under the Integrated Programme to certain developmental aspects of commodity policy and to the stabilization of export earnings. It has been suggested that international action in these areas, which in some cases might involve work of a somewhat longer duration than the negotiations on individual commodities, might be considered within the Committee on Commodities. However, it may be recalled that these aspects of commodity policy also come within the purview of Conference resolution 93 (IV), and any future work thereon would be closely related to the negotiations on individual commodities. Consideration would therefore need to be given to the future relationship between the Committee on Commodities and the *Ad hoc* Intergovernmental Committee. In this connexion, it is pertinent to draw attention to the fairly wide terms of reference of the Committee on Commodities, as set out in Trade and Development Board resolution 7 (I), which include:

(*a*) To promote general and integrated policies in the commodity field;

(*b*) To co-ordinate the activities of all bodies involved in the commodity field, including the appropriate organs of FAO, as well as of the autonomous commodity councils, study groups and other commodity groups, and any commodity activities within GATT;

(*c*) To undertake and publish studies on trade in commodities and in particular on excessive fluctuations in the prices and volume of commodity trade, and to prepare market reviews, including projections of commodity supply and demand;

(*d*) To promote and encourage the conclusion of international stabilization agreements or other commodity arrangements, and to make recommendations for the convening of negotiating conferences.

30. In view of its broad mandate, the Committee on Commodities would no doubt take into account the ongoing work on individual commodities in its deliberations and provide over-all policy guidance as necessary.

31. Once the initial preparatory phase of the work on individual commodities is completed and agreement is reached on the commencement of negotiations on a wide

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[11] See Trade and Development Board decision 177 (XVIII) of 17 September 1978.

[12] Resolutions 1 (III) of 15 July 1977 (see TD/B/IPC/AC.11, annex I) and 3 (VI) of 15 July 1978 (see TD/B/IPC/AC/21, annex I).

[13] See TD/B/IPC/AC/21.

[14] Document TD/229, reproduced in the present volume.

range of commodities, the work relating to the negotiation of new commodity arrangements and the renegotiation of existing ones would have to become a part of the regular work programme of UNCTAD in the field of commodities, together with other aspects of commodity work. Furthermore, the UNCTAD secretariat would have to gear itself to provide effective support for the intergovernmental discussions and for the process of negotiations, which is likely to be on an unprecedented scale. In addition to providing technical support, the secretariat would also have to be adequately equipped to play an effective role as an "honest broker" and to assist Governments in resolving major issues in the negotiations. These factors would need to be borne in mind in determining the level and kind of resources to be provided to the UNCTAD secretariat.

CHAPTER II

Summary of the progress of work on individual commodities

32. The description below covers exclusively those commodities listed in Conference resolution 93 (IV) which are not presently the subject of international commodity agreements. Such agreements at the time of writing (February 1979) covered cocoa, coffee, olive oil, sugar and tin. No preparatory meetings have so far been held on two commodities, viz. bananas and bauxite.

A. Agricultural commodities

1. *Bananas*

33. Banana prices have fallen substantially in real terms since the early 1950s. A commodity agreement to stabilize prices at levels acceptable and remunerative to producing countries and equitable to consuming countries has been a main objective of international discussion in recent years.

34. So far no preparatory meeting has taken place on bananas under Conference resolution 93 (IV). However, discussions on an international banana agreement are currently proceeding within FAO. A Working Party on Elements of an International Banana Agreement, set up after years of discussions and consultations on a banana agreement in the Intergovernmental Group on Bananas, has met three times, in July 1976, May-June 1977 and October 1978.

35. At its first session, the Working Party concluded that bananas were amenable to the application of an international agreement which might, *inter alia*, set production and export goals compatible with world banana requirements and include provisions for the examination of appropriate measures designed to secure prices remunerative to producers and reasonable for consumers, as well as quality improvements, and schemes for increasing consumption and for diversification in producing countries. A principal feature of the second session was that the producers as a group reached a consensus on safeguards for preferential suppliers.

36. During the second session of the Working Party the participating Governments decided that further technical work was necessary within FAO before the question of a banana agreement could be taken up in UNCTAD. The fifth session of the Sub-Group of Exporters of the Intergovernmental Group was unable to make progress in developing a comprehensive banana agreement. Further studies were requested to assist Governments in their consideration of the matter.

37. At the third session of the Working Party it was agreed that concerted international action on bananas could include co-operation in assessing the medium-term outlook for production and demand; promotion; development of new markets and new uses; research and development; quality improvement; crop insurance; and compensatory financing. It was also agreed that bilateral and regional consultations should be held among exporting countries, to be followed by a further meeting of the Sub-Group of Exporters, and that the Intergovernmental Group on Bananas, which had not met since 1975, should be convened in 1979 to consider progress made in the Working Party as well as additional proposals agreed upon by the exporting countries.

38. Although some progress has been achieved in the FAO consultations, it appears that exporting countries consider that further preliminary work is required before substantive negotiations can begin with importing countries. In particular, exporting countries seem to require more time to devise an acceptable export quota scheme that would accommodate the interests of all of them. A major difficulty is that governments of several major producing countries have little or no control over production, exports and prices. Prospects for an international agreement might be improved through initiatives at the national or international levels to overcome this problem.

2. *Cotton and cotton yarns*

39. Following a long period of stability, prices of cotton in international markets started to fluctuate widely in the early 1970s, to the detriment of many exporting and importing countries, and to that of cotton's ability to compete with synthetic substitutes. An analysis of the extent and nature of this phenomenon, and its causes and consequences, has been the principal preoccupation of the three preparatory meetings held on cotton so far. At the Third Preparatory Meeting,[15] however, this phase appears to have come to an end, and Governments agreed that the phenomenon of price instability had been thoroughly discussed. While there was some divergence of views as to the exact amplitude and nature of the price swings, and the weight to be given to the different factors causing them, there was general agreement that wide price fluctuations had occurred since 1972-1973, and many developing exporting countries and some importing countries felt that they had been adversely affected by them.

40. The Third Preparatory Meeting considered possible options for international action to reduce the extent of price fluctuations. It did so on the basis of a secretariat discussion note which sketched out five different options

[15] The report of the meeting was circulated as document TD/B/IPC/COTTON/12 and Corr.1.

for such action, ranging from "comprehensive" solutions, such as a pricing arrangement supported by an international buffer stock or by a system of internationally co-ordinated national stocks, through an arrangement where one or more exporting countries, while subscribing to the international pricing provisions of the arrangement, would undertake to carry out their stocking obligations through national policy action, to partial arrangements under which all or selected developing cotton exporting countries would be provided with international financial assistance to enable them to hold cotton stocks when prices fell to agreed levels.

41. The Third Preparatory Meeting requested the secretariat to prepare appropriate documentation to cover both the five options and a proposal made by the experts from one exporting country for a multilateral contract type of arrangement. The documentation to be made available to the Fourth Preparatory Meeting (June 1979) should enable Governments to conduct a technical examination of all the options presented, and eventually to reduce the number of alternatives which they wish to consider in more concrete detail. If a sufficient area of agreement between Governments is found, it should therefore be possible to instruct the secretariat to prepare for the next preparatory meeting a document spelling out the elements of a possible international arrangement for cotton, with a view to moving on to the negotiating phase.

42. Price instability is not, however, the only problem facing cotton. A number of other international measures are also required, including research and development in both agriculture and processing, market promotion, measures to enable developing exporting countries to participate more fully in the marketing and distribution of their cotton, and action to make more and better market information available to them.

43. A small number of developed and developing producing and consuming countries already support market promotion efforts in certain developed cotton-importing countries through the International Institute for Cotton. An additional initiative has, moreover, been launched for the establishment of Cotton Development International, which, in addition to market promotion, would cover research and development activities in both agriculture and processing. Recently, there has been evidence of intensified interest on the part of some of the major countries concerned to see the latter initiative brought rapidly to a fruitful conclusion. At the fourth preparatory meeting, Governments will have an opportunity to give further impetus to this initiative and also to ensure that such arrangements as may be made for its implementation will be in line with the measures envisaged in Conference resolution 93 (IV), and in harmony and appropriately linked, within the framework of the Integrated Programme, with any international measures that may be taken to reduce cotton price instability.

44. The International Cotton Advisory Committee is in the process of intensifying its efforts to improve the quality and flow of market information, and Governments may wish to consider ways in which the Commitee's work in this area can best contribute to the package of activities envisaged under the Integrated Programme. Finally, as regards the marketing and distribution of cotton, the UNCTAD secretariat is in the process of finalizing a study on the subject. The topic of marketing and distribution of primary commodities in general is, moreover, expected to be discussed at the fifth session of UNCTAD. At the fourth preparatory meeting, Governments will thus be in a position to consider the implications of these discussions for possible action on this aspect as part of the over-all package of measures on cotton under the Integrated Programme.

3. *Hard fibres and products*

45. Although price instability is recognized to constitute an important problem facing at least two of the hard fibres, namely sisal/henequen and abaca, much of the discussion in the three preparatory meetings so far held, including that on coir, has concentrated on the possibility of formulating and launching internationally assisted programmes of technical improvement and market promotion, so as to improve the competitiveness and expand the consumption of the three fibres and their products.

46. Progress with the formulation of price and market stabilization measures for sisal/henequen has been hampered mainly by the inability of Governments to agree on how baler twine and synthetics could be handled in an eventual arrangement. The question has therefore been postponed to the fourth preparatory meeting for further consideration. If an arrangement covering both raw fibre and baler twine continues to prove unattainable, consideration might be given by Governments to a scheme which would make it possible for individual developing exporting countries to obtain international financial assistance for the purpose of short-term stocking operations necessitated by the prevailing market situation, or by their obligations under any pricing arrangements that exist or may be agreed upon, including informal arrangements of the type operated under the auspices of the FAO Intergovernmental Group on Hard Fibres.

47. In the case of stabilization measures for abaca, the preparatory meetings have limited themselves to an invitation to the FAO Intergovernmental Group on Hard Fibres to reactivate the informal arrangement on indicative price ranges. A new indicative price range was, in fact, negotiated under that arrangement at the thirteenth session of the FAO Intergovernmental Group on Hard Fibres, in March 1978.[16] The principal abaca-exporting country is, however, in the process of considering the reorganization of its internal marketing system for the fibre and the adoption of a pricing scheme for abaca, which was expected to be considered and evaluated by the UNCTAD Working Group on Abaca in February 1979.[17] That discussion is expected to provide indications of the direction in which Governments will wish to move in their further consideration of the price instability problem for abaca.

48. While progress towards action on price stabilization for sisal/henequen and for abaca has thus been limited, considerable progress has been made towards the formulation and launching of internationally supported programmes to improve the competitiveness and expand the consumption of all three hard fibres.

49. In the case of sisal/henequen, a list of projects for such a programme, divided into three priority categories,

[16] See FAO, document CCP: 78.2.

[17] See document TD/228/Add.1, below.

was drawn up, and it was subsequently agreed that the list could, with certain agreed modifications and additions, constitute an adequate basis for a final selection of projects for detailed examination under such a programme.

50. The Working Group on Sisal and Henequen, convened in December 1978, considered, however, "that it would be necessary to devise an arrangement with over-all responsibility for the programme" once it had been agreed upon. The Group therefore requested the UNCTAD secretariat, in co-operation with FAO, to prepare for consideration by the fourth preparatory meeting on hard fibres a document setting out proposals for an arrangement with over-all responsibility for the hard fibres programme "which should take full account of existing services within the United Nations system". In addition to the implementation of the technical improvement programme, the arrangement could cover, *inter alia*, co-ordination of technical and promotion work and the dissemination of research results, as well as any price stabilization measures that may be agreed upon.[18]

51. The consideration of technical improvement and market promotion programmes for abaca and coir is somewhat behind that for sisal/henequen. However, the meetings of the Working Groups on the two commodities in February 1979 were expected to give active consideration to project lists for programmes on them, with a view to bringing all three fibres to the same stage with regard to the development of improvement programmes for them.[19] If this expectation materializes, the secretariat will then be in a position to prepare documentation for coir and abaca analogous to that on sisal/henequen, so that the fourth preparatory meeting can give consideration to the objectives, functions and provisions of an international arrangement or arrangements for all three hard fibres, with a view to moving subsequently to the negotiating phase. At that stage Governments will need to give active consideration to the question of what other objectives and provisions the agreement or agreements might cover. Possible areas include, in particular, the continued pursuit of price stabilization objectives, where relevant, but also some other objectives and measures specified in Conference resolution 93 (IV).

52. In this process, special attention will need to be given by Governments to the desirability of harmonizing the initiative for the establishment of Coir International, taken within the FAO Intergovernmental Group on Hard Fibres, with those taken on the same commodity under the Integrated Programme, in such a manner as to maximize the positive impact of both. The FAO *Ad hoc* Working Party on the Establishment of Coir International met in February 1979, and the outcome of that meeting was to be discussed by the UNCTAD Working Group on Coir which was to meet immediately afterwards. These meetings are expected to provide an indication of the direction in which Governments wish to move in this regard.[20]

4. *Jute and jute products*

53. Five preparatory meetings[21] and two sessions of the Intergovernmental Working Group on Jute and Jute Goods[22] have identified as problems the facts that the market share of jute has declined in the past few years, that synthetics have affected the market position of jute, that instability exists in the market, and that both the productivity and the competitiveness of jute need to be increased.

54. These discussions have also enabled Governments to agree on certain elements which could serve as the basis for a possible international arrangement or arrangements. Thus, it has been agreed that there should be a Programme on Research and Development and Market Promotion which should be aimed, *inter alia,* at finding new end-uses and improving existing products, improving manufacturing processes for existing and new products, and improving agricultural productivity and fibre quality. The identification of appropriate projects in this field has been pursued actively by the FAO secretariat, and the sixth preparatory meeting (April 1979) will analyse the specific proposals made.

55. Producing and consuming countries have also agreed that an arrangement on jute could include the evaluation and co-ordination of programmes aimed at reducing the cost of raw jute and jute products in order to increase their competitiveness in relation to synthetic substitutes. Such evaluation would take into consideration, *inter alia*, the recommendations on cost reduction made at the third preparatory meeting, without prejudice as to whether any specific measure mentioned therein is appropriate to programmes aimed at cost reduction. The sixth preparatory meeting will discuss a programme that is being prepared by the UNCTAD secretariat with the assistance of FAO and UNIDO, which would give priority to measures to improve agricultural productivity and fibre quality.

56. In addition to these measures affecting the development of jute and jute products, producing and consuming countries have also agreed on a number of measures aiming at the expansion of the jute market. These include the improvement of market intelligence, particularly by the development of procedures to facilitate further collection and dissemination of information relating to jute and jute products. A special committee, within an institutional arrangement for jute, could be created in order to analyse the market trends and identify the kind of information required. It has also been agreed that any future international arrangement should provide for a mechanism for the regular exchange of information and consultations on competition between jute and synthetics. Such a mechanism could consist in a committee composed of representatives of the producing and the consuming countries, which would collect information and statistics on production, costs, prices, tariffs etc. of jute and synthetics, hold periodic consultations on the state of competition between these two products, and submit reports to the Council. Producing countries also attach great importance to a programme for market promotion aimed at retaining

[18] See TD/B/IPC/HARD FIBRES/11.

[19] See document TD/228/Add.1, below.

[20] *Ibid.*

[21] The reports of these meetings were circulated as documents TD/B/IPC/JUTE/1, 3, 5, 7 and 14.

[22] The reports of the Group were circulated as documents TD/B/IPC/JUTE/8 and 9.

present markets and expanding future markets for jute and jute products. The sixth preparatory meeting will examine projects in this area which will be suggested to it by the International Trade Centre UNCTAD/GATT.

57. In other areas, agreement has not yet been possible. Thus, though producing countries attach great importance to the improvement of market access and have suggested that a Jute Council could monitor developments related to market access of jute and jute goods in the appropriate forums, consuming countries have not been prepared to agree to such a proposal. Likewise, the reduction of the cost of ocean transportation, which in the producers' view should be continuously examined and included in the provisions of an international agreement, has not yet met with the full support of the consuming countries.

58. The major areas on which agreement has not yet been reached, however, are those of market stabilization and institutional management. As to stabilization, though producing countries are in favour of a stocking system for the stabilization of prices of raw jute and jute goods, certain consuming countries have expressed their doubts about the operation of any stabilization scheme for raw jute and have excluded the possibility of any arrangement for the stabilization of jute goods. As to the management of any arrangement, producing countries are considering institutional structures which would include the establishment of an intergovernmental body comprising all the participants in the arrangement, with appropriate organs. Such a body could also serve as the main forum for the study, discussion, and consideration of other issues relating to jute and jute products. Some consuming countries, however, are in favour of a more modest mechanism, to be charged with implementing only the programmes for research and development and any others that could be agreed upon.

59. It is hoped that at the sixth preparatory meeting further consideration will be given to the outstanding issues and that agreement can be reached on the main elements that could be considered in an international arrangement or arrangements.

5. *Meat*

60. The First Preparatory Meeting on Meat (March 1978)[23] was held at a time when the negotiations on meat were still in progress in the framework of the multilateral trade negotiations in GATT. There was therefore little discussion of substance. In documentation prepared for the meeting, the UNCTAD secretariat put forward a number of suggestions regarding the areas where policy action was required in regard to meat, relating mainly to the liberalization of trade, the reduction of trade barriers and trade-distorting practices, the improvement of market access, security of supplies and prices, health and sanitary regulations, export subsidies and safeguard clauses, and the strengthening of the present machinery of information, consultation and co-ordination. The Meeting recognized the importance of the specific policy proposals suggested by the UNCTAD secretariat for international action, and particularly for more predictable conditions of access to major importing countries so as to mitigate the current instability of the world beef market, and recommended that they be brought to the attention of the Sub-Group on Meat of the Group on Agriculture of the multilateral trade negotiations. The Meeting also noted the problems of a number of countries not participating in those negotiations, in particular African producing countries, and the views of these countries on possible international measures in the beef sector.

61. The Preparatory Meeting recommended in its agreed conclusions that, in the light of the progress made in the multilateral trade negotiations, the *Ad hoc* Intergovernmental Committee for the Integrated Programme for Commodities (see para. 28 above) should decide, as appropriate, the timing of a further preparatory meeting on meat. The main difficulty in making progress on meat under the Integrated Programme has been uncertainty as to the outcome of the multilateral trade negotiations. Since these negotiations are now scheduled to come to an end early in 1979, it appears desirable to await the results. It would then be possible to take stock of the progress made and to consider whether there are areas not satisfactorily covered in the negotiations which should be examined by a second preparatory meeting on meat.

62. There are also a number of areas mentioned in Conference resolution 93 (IV) which, with respect to meat, have not been covered in the multilateral trade negotiations and which may require further examination in future work on the subject under UNCTAD auspices. These relate to the need for improvements in production efficiency, marketing and distribution systems and meat processing in developing countries. The possibilities of greater co-operation among developing meat exporting and importing countries, with a view to a significant expansion in regional and interregional trade flows, appears to be another important field of work requiring further exploration.

6. *Rubber*

63. The progress of negotiations on rubber has been quite rapid. At the First Preparatory Meeting[24] it was agreed that measures designed to reduce excessive price volatility in the international rubber market would be in the interests of both producers and consumers. The Third Preparatory Meeting[25] unanimously agreed that a negotiating conference on rubber should be convened.

64. The first session of the United Nations Conference on Natural Rubber was therefore duly convened in November 1978, and considerable progress was made towards a compromise text on the main economic elements of an agreement. All the rubber-producing countries and several consuming countries were able to agree on a package of provisions for the main economic elements of a natural rubber price stabilization agreement. In particular, they were able to agree to a buffer stock of 400,000 tons and a contingency of 100,000 tons, the financing of which would be shared equally by importers and exporters through direct government contributions. It was also agreed that the floor and ceiling prices of the agreement would be fixed for a period of 30 months, and that these prices would be

[23] The report was distributed as document TD/B/IPC/MEAT/3.

[24] The report was distributed as document TD/B/IPC/RUBBER/1.

[25] The report was distributed as document TD/B/IPC/RUBBER/9.

reviewed and revised every 30 months by special vote. Within the range between the floor and ceiling prices the reference price would, it was agreed, be reviewed every 18 months on the basis of the trend of market prices and/or net changes in the buffer stock.

65. One major consuming country was not, however, in a position to accept the agreed positions with regard to the size of the buffer stock, the pricing mechanism, and consultations on domestic policies. This country believed that a larger stock, of 600,000 tons, was necessary with respect to the pricing mechanism. It could not accept the concept of fixed floor and ceiling prices; rather, it wished to see the whole price range adjusted automatically in response to changes in net buffer stocks. It also insisted on the inclusion in the agreement of provisions relating to consultations on domestic administrative and fiscal policies affecting natural rubber supplies or prices.

66. Despite these problems, the United Nations Conference on Natural Rubber, 1978, in a resolution adopted at the suspension of its work,[26] noted the progress that had been achieved and requested the Secretary-General of UNCTAD to reconvene the Conference before the fifth session of UNCTAD. The Conference is scheduled to reconvene on 26 March 1979.

7. *Tea*

67. In the case of tea, the major problem for producing-exporting countries has been the long-term deterioration in prices in real terms. More recently there has also been a tendency for prices to experience marked short-term fluctuations. The discussions which have taken place for over a decade to solve the problems of the world tea economy have resulted in an agreement in principle on the objectives of an international programme for tea relating to both demand and supply. These objectives could best be achieved through an international agreement encompassing a comprehensive set of specific measures to regulate supplies coming onto the market, to expand world demand for tea and to increase the participation of producing countries in processing and marketing. Measures of a longer-term nature within the framework of an agreement, such as those relating to acreage, could ensure that the short-term benefits of an arrangement would not engender long-term imbalances.

68. So far one preparatory meeting on tea has been held (January 1978).[27] It decided to "work towards an International Agreement on Tea"; agreed that every effort should be made to negotiate such an agreement as soon as possible, in accordance with Conference resolution 93 (IV); and set up an intergovernmental group of experts to continue the work until the second preparatory meeting. The Intergovernmental Group of Experts met in September 1978[28] and considered a joint UNCTAD/FAO study on technical and economic aspects of international stocking arrangements, including export quotas.[29]

69. The discussions of the Group were in large part devoted to the relative merits of buffer stocking and export quotas as a means of achieving the objectives set out in Conference resolution 93 (IV). Many experts from producing countries expressed reservations on export quotas and called for a detailed analysis of a tea buffer stock operating alone before other supply management measures were considered. Experts from importing countries expressed doubts about the viability of a buffer stock mechanism unsupported by export quotas. In order to provide a basis for continued discussion in the effort to reach an international agreement on tea, the Group requested that further detailed studies be carried out relating to a buffer stock mechanism and to the prospective demand and supply situation with its implications for supply management measures.

70. Agreement is now required between producing and importing countries on the shape of international supply management measures, particularly on the emphasis to be given to a buffer stock mechanism, before further progress can be made towards a comprehensive international tea agreement. The Intergovernmental Group of Experts will have the opportunity, at its second session, to consider the various studies requested by it, to narrow down the number of operational options relating to the management of supply and to put forward practical suggestions and recommendations for the second preparatory meeting on tea.

8. *Tropical timber*

71. Four preparatory meetings on tropical timber have so far been held.[30] A major difficulty encountered in the consideration of tropical timber at the beginning of the preparatory work was the absence of appropriate information focusing on tropical timber as a commodity. Most of the studies available therefore dealt with timber as a resource and not as a commodity. In order to overcome this problem, the FAO and UNCTAD secretariats were entrusted with the preparation of adequate documentation that could provide the basis for the identification of problems and actions to be pursued. It was thus possible for the Fourth Preparatory Meeting (July 1978) to identify the problems and the elements which could be the basis for a possible international arrangement on tropical timber.

72. The problems identified relate mainly to market instability, forest depletion and inadequate processing and manufacturing of timber in producing countries. With regard to market instability, it was recognized that the problem rested on the issue of supply responsiveness to unexpected changes in demand, but there was not complete agreement about the measures that could be adopted. Producers and consumers have agreed so far that international action should be taken to avoid excessive fluctuations in the tropical timber market by improving market intelligence and in particular establishing an early warning system.

73. In the area of reforestation, it was agreed that action was needed to improve the management, regeneration and utilization of tropical forest resources, and

[26] TD/RUBBER/7.

[27] The report was of the meeting distributed as document TD/B/IPC/TEA/7.

[28] The report of the meeting was distributed as document TD/B/IPC/TEA/8.

[29] "The technical possibility of operating an international buffer stock for teas" (TD/B/IPC/TEA/5).

[30] The reports of the meetings were distributed as documents TD/B/IPC/TIMBER/3, 5, 11 and 23.

producing countries have suggested that a tropical reforestation fund should be established as an essential element for inclusion in a possible international arrangement. It was also agreed, in regard to the processing of timber by producing countries, that action was needed to monitor developments in appropriate forums relating to market access; to improve international standardization of nomenclature of species, grades and specifications in the tropical timber trade; to facilitate the transfer of appropriate technology, and to promote the expansion and development of processing and manufacturing in producing countries through, *inter alia*, measures aimed at encouraging investment.

74. There remain, however, some areas in which agreement has not yet been reached and on which further technical work and intergovernmental consultations are required. With regard to market fluctuations, these areas include the use of price indicators based on negotiated price ranges, long-term supply and purchase arrangements, compensatory facilities to stabilize export earnings, and various technical issues which arise with respect to the possible use of pipe-line stocks. Nor has agreement been reached with regard to international action aiming at the improvement of infrastructure, particularly transport and marketing, with special attention to land-locked countries. In addition, certain subjects have not yet been discussed in the preparatory meetings; these are related mainly to the institutional and organizational aspects of the implementation of an international arrangement on tropical timber. Accordingly, the secretariats of UNCTAD and FAO were requested to prepare a document to be submitted to the fifth preparatory meeting showing how a scheme covering the elements on which agreement in principle has been reached and taking into account regional differences might be organized and operated and what the financial, institutional and other requirements and implications of such a scheme would be. Producing countries have suggested the establishment of an international tropical timber council which would be entrusted with the implementation of the international arrangement, receiving technical inputs from existing regional timber organizations, international organizations and other entities, and monitoring the activities of the tropical reforestation fund.

75. Action programmes and projects in the fields of reforestation and forest management, processing and manufacturing in producing countries and research and development, on which there is already substantial agreement, might be developed as the first stage towards the conclusion of an international arrangement on timber.

9. *Vegetable oils and oilseeds*

76. The two preparatory meetings held on vegetable oils and oilseeds[31] have shown clearly that it would be difficult to negotiate international arrangements to deal with the problems related to this product group's high degree of price instability and associated fluctuations in export earnings and unfavourable price trends. This is because of the complexity of the market, which is characterized by a large number of different types of oilseeds, each with its own production, consumption and end-use characteristics. As a consequence, there seems to be little interest shown by the major exporting countries in engaging in negotiations leading to stabilization arrangements. Each of these major producing countries has had some success in carrying out production programmes and has achieved relatively high levels of competitiveness. Their policies have been directed more to increasing their market shares than to stabilizing prices.

77. The apparently low interest of the major producing countries in securing international action to stabilize the market for oils and oilseeds appears to be the main reason for the lack of a clear sense of direction for further work on this group of commodities. Global arrangements are likely to be elusive except in matters which are not central to the functioning of the oilseeds market, such as research and development, market promotion and the improvement of infrastructure and industrial capacity, as they relate to the oilseed crushing and oil-meal industry in developing countries. However, uncertainty regarding the availability and sources of finance is a major constraint in making progress in these areas.

78. One possible way to enable the work of the preparatory meetings to move forward might be to recognize that conventional formal arrangements involving market stabilization objectives are not practicable at this time. Governments might wish to examine looser, less formal arrangements which involve national storage and stocking policies, an early warning system to trigger off possible national action through appropriate consultation procedures when it appears that major price changes may occur, and availability of finance for national stocking policies of low-income producing countries to improve the timing of their marketing policies and to avoid distress sales. International co-operation might also relate to arrangements dealing with specific problems of particular groups of net exporting or net importing countries. There are a large number of low-income net exporting countries, expecially in Africa, which are heavily dependent on the oilseed sector for their export earnings and which face problems arising from stagnating production and a secular downward trend in quantities available for export, lack of competitiveness and deficiencies in marketing. Specific action programmes to provide solutions to the problems faced by these countries might be envisaged. There is also a need for measures to help net importing developing countries to procure their requirements at reasonable and stable prices. These efforts would be facilitated by co-operation among the developing producing countries themselves.

B. Minerals and metals

1. *Bauxite*

79. The date of a preparatory meeting on bauxite, if required, remains to be determined. Background documentation prepared by the UNCTAD secretariat has been available since early 1978, in advance of a decision concerning the holding of such a meeting, which would be the first meeting held under United Nations auspices to deal with the problems of international trade in bauxite. It would be for Governments, at such a preparatory meeting, to identify the particular features of the world market for

[31] The reports were distributed as documents TD/B/IPC/OILS/3 and 8.

bauxite which, in their own evaluation, constitute problems or potential problems, and to determine and propose, as required by Conference resolution 93 (IV), the remedial measures and techniques to be applied.

80. In this connexion, the documentation prepared by the secretariat draws attention, *inter alia*, to the following features of the world market for bauxite. The average real unit value of bauxite entering international trade, although it rose between 1973 and 1976, was still lower in 1976 than in the mid 1960s. The degree of participation of the developing countries as a group in world production and exports of bauxite declined over the period 1955-1976. Although the developing countries have participated in the move towards increased processing of bauxite in raw-material-producing countries, their share remains disproportionate to their role as producers of the raw material. Thus, in 1976, whereas the developing countries accounted for 48 per cent of the world output of bauxite, they accounted for only 18 per cent of the world production of alumina and for only 9 per cent of world output of aluminium. Furthermore, the characteristics of the market structure of the world's bauxite, alumina and aluminium industries—especially the dominance of transnational corporations—give rise to special problems for raw-material-producing countries.

81. As no intergovernmental discussions have taken place under United Nations auspices on the problems of international trade in bauxite, there is no known detailed expression of the wishes of the Governments of producing and consuming countries in respect of this commodity. Nevertheless, it would seem that, in the formulation of specific objectives at a preparatory meeting (if held), Governments might wish to pay particular attention to such objectives as the pursuit of pricing and taxation policies to sustain or improve the terms of developing countries' bauxite trade and the expansion of bauxite processing in developing countries. Moreover, improved market access, particularly for developing countries wishing to produce and export bauxite, alumina and aluminium independently of the traditional channels provided by the vertically integrated transnational corporations, might also retain governmental attention. Similarly, increased developing country participation in the expansion of world bauxite production and trade and improvements in the predictability of markets for exporters and the reliability of supplies for consumers would appear to be objectives which Governments might wish to pursue.

2. *Copper*

82. Copper—a very important commodity in international trade, in which trade flows mainly from developing countries as producers to the industrialized countries as consumers—faces widely recognized problems. The price of copper has remained notoriously unstable both in the very short term and over periods of a number of years—an instability which has impeded smooth economic growth in developing exporting countries, imposed additional costs and risks on industrial consumers, and impeded a rational development of productive capacity in copper-exporting countries. The copper market can be expected to remain very unstable in the absence of remedial international action.

83. Altogether, 13 intergovernmental meetings on copper had been held by mid-October 1978 in pursuance of the Integrated Programme for Commodities, and the fourteenth such meeting was convened on 26 February 1979. In addition, an intergovernmental consultation on copper had been held under the auspices of UNCTAD in March 1976, before the adoption, at the fourth session of the Conference, of the Integrated Programme (resolution 93 (IV)).

84. Although it is universally accepted by Governments that the reduction of instability in the copper market is a desirable objective, there is no agreement as yet on how to achieve this objective; hence, there has been only limited discussion and no agreement on particular measures which would be feasible, effective and desirable as part of any international arrangement containing commitments to take economic measures.

85. In discussions during the first seven intergovernmental meetings on copper held in pursuance of Conference resolution 93 (IV), despite the availability of more than 50 related documents, progress towards the implementation of that resolution was severely hampered by the lack of a clear sense of direction. Those meetings discussed two approaches to copper problems—one envisaging the taking of economic measures within the context of an international commodity agreement to be negotiated at a conference to be scheduled within the time-frame of resolution 93 (IV), and the other envisaging the creation of a standing body on copper for the continuation of studies and intergovernmental discussions on the commodity, without excluding the possibility of the eventual negotiation of a commodity agreement.

86. Against this background, the Third Preparatory Meeting on Copper,[32] which was the eighth intergovernmental meeting on copper held in pursuance of Conference resolution 93 (IV), agreed that a standing intergovernmental copper body should be established as part of the continuing programme of work of the Integrated Programme for Commodities and also agreed that, to that end, a working group should be convened for the purpose of elaborating the terms of reference and draft proposals on the rules of procedure, organizational structure and financial requirements for such a body. After three sessions, the Working Group agreed[33] to transmit to the fourth preparatory meeting a working paper submitted to the Group by its Chairman, entitled "Draft charter of a standing intergovernmental copper body",[34] which envisaged the establishment of an autonomous body having certain links with UNCTAD. Subsequently, Peru introduced a second alternative, which was to establish a committee on copper as an integral part of UNCTAD. This was followed by a proposal put forward by Zaire as a compromise; it envisaged that a special committee on copper should be established within the institutional framework of UNCTAD as a subsidiary body of the Trade and Development Board, but that it should have operational autonomy. The Fourth

[32] The report was distributed as document TD/B/IPC/COPPER/8.

[33] The report of the Working Group was distributed as document TD/B/IPC/COPPER/9.

[34] TD/B/IPC/WG/CRP/10.

Preparatory Meeting[35] could not reach agreement on any of the proposals.

87. In these circumstances, copper became the subject of considerable discussion at the eighteenth session of the Trade and Development Board, which decided, by resolution 180 (XVIII), that a fifth preparatory meeting should be convened before the end of October 1978 to accelerate the preparatory work, within the framework and revised time-table of the Integrated Programme for Commodities.

88. The Fifth Preparatory Meeting[36] had before it a note by the UNCTAD secretariat on the basic elements of an international copper agreement and a proposal on the same subject submitted by the delegation of Peru. Most of the discussion, however, related to the unresolved institutional issue and, in this connexion, the European Economic Community tabled a proposal constituting an additional alternative. The Meeting could not reach a consensus on any of the institutional proposals and recommended that provision be made for a sixth preparatory meeting to be held as early as possible in 1979; it urged Governments to make every endeavour to prepare for a substantive discussion at that meeting and invited Governments to make written submissions to that end. The Sixth Preparatory Meeting was held from 26 February to 1 March 1979[37] and the results will be available to the *Ad hoc* Intergovernmental Committee for the Integrated Programme for Commodities at its eighth session.

89. The conclusive test of progress on copper will be provided by the willingness of Governments, no matter in what institutional framework, to take economic measures to improve the conditions of trade in copper in a direct and material way, in accordance with declared international trade and development policies. To that end, the UNCTAD secretariat has presented to Governments, in the past three years, factual and discursive material and suggestions in relation to possible economic measures in a series of documents, and certain Governments have also made written submissions. It should thus be possible for Governments to proceed to the further consideration of the nature and modalities of possible international action and to agree upon the commencement of negotiations for concluding an international agreement.

3. *Iron ore*

90. Iron ore is not subject to marked short-term price fluctuations; the main issue, rather, is whether the trend in real prices—"persistent price decline", as it is termed in sect. III, para. 2 (*j*), of Conference resolution 93 (IV)—calls for the adoption of specific price objectives and supporting measures. The current prices of iron ore, adjusted for inflation, are lower than in 1955; although the long-term decline was arrested briefly in 1974, it has since resumed. Given the characteristics of the commodity, in particular the price inelasticity of demand, iron ore lends itself to measures (essentially involving the management of supplies) to maintain prices at, or close to, levels which would be agreed as being remunerative and just to producers and equitable to consumers.

91. The First Preparatory Meeting on Iron Ore[38] was the third intergovernmental meeting, although the first in the context of the Integrated Programme, to be held on that commodity within UNCTAD; it was convened with the adequate prior knowledge of Governments, and it had before it a considerable volume of factual and analytical material, including a review of possible international measures and techniques prepared by the UNCTAD secretariat.[39] Interested iron ore exporting countries also had the advantage of having a recently established forum (the Association of Iron Ore Exporting Countries) for prior discussion of matters of common interest. However, the Meeting engaged in very little substantive discussion, since no concrete measures were proposed.

92. A subsequent *Ad hoc* Intergovernmental Group of Experts on Iron Ore, which held two sessions,[40] was unable, for the lack of any relevant proposals by Governments, to give direct consideration to the question of appropriate measures and techniques. The Group recommended the establishment of an annual statistical programme with respect to iron ore, to be co-ordinated within the UNCTAD secretariat.

93. The Second Preparatory Meeting[41] agreed on the desirability of the establishment of an annual statistical programme, as had been proposed by the Group of Experts, on the taking of preliminary steps towards a possible study of the problems of the iron ore industry "from a longer term perspective", and on the examination, on the basis of contributions from Governments, of the question of the expansion of the processing of iron ore in producing countries. The Meeting did not agree on the existence of problems amenable to international solutions and did not discuss possible economic measures.

94. This was a meagre result from four intergovernmental meetings on the commodity held in pursuance of the Integrated Programme. Progress on questions of substance at any further intergovernmental meetings on iron ore which may be warranted would be facilitated if Governments made specific proposals concerning possible international measures for consideration at such meetings. These may include measures in the field of pricing policy, as well as those relating to other aspects, such as the increased processing of iron ore in developing producing countries. This would enable the meetings to commence action-oriented discussions among the principal countries.

4. *Manganese*

95. Although prices of manganese ore are not subject to short-term fluctuations, a considerable long-term decline in real prices has occurred, the recent level being lower than the average for the 1960s and much lower than the average for the 1950s. Another problem is the long-term decline in

[35] The report of the meeting was distributed as document TD/B/IPC/COPPER/11.

[36] The report, of the meeting was distributed as document TD/B/IPC/COPPER/14.

[37] See document TD/228/Add.1 below.

[38] The report of the meeting was distributed as document TD/B/IPC/IRON ORE/4.

[39] TD/B/IPC/IRON ORE/3.

[40] The reports of the Group were distributed as documents TD/B/IPC/IRON ORE/5 and 6.

[41] The report of the meeting was distributed as document TD/B/IPC/IRON ORE/8.

the share of the developing countries in world trade in manganese ore and in ferro-manganese. The technical characteristics of the commodity are such that it would be suited to action with a view, if judged appropriate, to sustaining or improving the terms of trade of developing countries. Other matters for attention might include the expansion of processing of the raw material in developing countries, the improvement of access to markets and reliability of supplies, and the adequate participation of the developing exporting countries in the expansion of world trade in manganese.

96. Only one intergovernmental meeting on manganese has been held in pursuance of the Integrated Programme for Commodities (June 1977). The apparent degree of interest in that meeting was very limited on the part of many Governments involved in trade in the commodity. Although it was the first meeting on the commodity within the Integrated Programme and the first UNCTAD meeting on manganese for more than three years, some countries did not send a government official from their capitals. Moreover, not all developing exporting countries were associated with a joint statement made by the producers.

97. The Preparatory Meeting on Manganese,[42] after a series of statements by individual producing and consuming countries and a joint statement by all but one of the producing countries, reached the conclusion that "in view of the issues raised in the general statements concerning the identification of specific problems by producers of manganese, it was necessary to identify specific problems relating to the production and marketing of manganese as a preliminary step to a future meeting of both consumers and producers". The Meeting therefore decided to recommend to the *Ad hoc* Intergovernmental Committee for the Integrated Programme for Commodities that it consider the need for future meetings on manganese.

98. The *Ad hoc* Intergovernmental Committee has not considered it opportune, at any of its subsequent sessions, to schedule a second preparatory meeting on manganese for a specific date.

99. In order to ensure progress at any future meetings on manganese, it would be necessary for Governments to identify the common problems confronting producing countries which are amenable to international co-operative action. Such action may relate to areas mentioned in paragraph 95 above. This would be facilitated by appropriate representation at the relevant meetings and by detailed presentation of the problems faced by exporting countries and the international measures which they seek to have implemented. Factual and analytical material, including a review of possible international measures and techniques, has been prepared by the UNCTAD secretariat and has been available to Governments since May 1977, and that material could be supplemented if required.

[42] The report of the meeting was distributed as document TD/B/IPC/MANGANESE/4.

5. *Phosphates*

100. The descriptive and analytical work carried out by the UNCTAD secretariat indicates that there have been problems of under-supply or over-supply of phosphates and associated fluctuations in prices, and that such problems are likely to continue in the absence of effective remedial international action. The precise nature and forms of such action would require careful and detailed consideration by Governments, bearing in mind the complexities of the commodity. It would need to be borne in mind, *inter alia*, that, from the point of view of the international community as a whole, any feasible action to expand the consumption of phosphates would presumably be the preferred course of action and that, in any event, special attention would need to be paid to the interests of developing importing countries, whose fertilizer needs are great and whose foreign-exchange resources are limited.

101. The First Preparatory Meeting on Phosphates[43] was the third intergovernmental meeting, although the first within the context of the Integrated Programme, to be held on that commodity within UNCTAD. It had before it a considerable volume of factual and analytical material, including a review of possible international measures and techniques, prepared by the UNCTAD secretariat.[44] The Meeting engaged in very limited substantive discussion and recommended that arrangements be made for its work to be continued at the level of governmental experts. Especially in view of the non-participation of the developing country which is the world's leading exporter of the commodity, Governments at the Meeting reached an understanding that a special effort would be made to solicit the participation of all major producers and exporters of phosphates in the proposed second preparatory meeting.

102. Subsequently, the Second Preparatory Meeting on Phosphates was convened,[45] but it lasted only one day in view of the fact that the Governments of a number of countries which together account for a significant proportion of international trade in phosphates were not represented, and it was therefore not in a position to consider what recommendations might be made on appropriate measures and techniques for attaining the objectives of resolution 93 (IV) in respect of phosphates. The Meeting recommended to the *Ad hoc* Intergovernmental Committee for the Integrated Programme for Commodities that it consider the scheduling of a further preparatory meeting on phosphates taking fully into account the prospects of adequate participation in such a further meeting. The *Ad hoc* Intergovernmental Committee has not, at any of its subsequent sessions, considered it appropriate to schedule a further intergovernmental meeting on phosphates.

[43] The report of the meeting was distributed as document TD/B/IPC/PHOSPHATES/4.

[44] TD/B/IPC/PHOSPHATES/3.

[45] The report of the meeting was distributed as document TD/B/IPC/PHOSPHATES/7.

DOCUMENT TD/228/ADD.1

Addendum

[Original: English]
[13 March 1979]

1. This addendum updates the summary of the progress of work on individual commodities contained in chapter II of document TD/228 above. It summarizes the results of the Sixth Preparatory Meeting on Copper (26 February-2 March 1979) and the meetings of the Working Group on Abaca (21-23 February 1979) and the Working Group on Coir (19-21 February 1979).

Copper

2. The Sixth Preparatory Meeting on Copper[1] discussed in an informal and preliminary way, without commitment on the part of Governments, the objectives of international co-operation on copper and the economic elements of a possible international arrangement on the commodity. In addition to a considerable volume of documentation prepared for earlier meetings on copper, the Meeting had before it written submissions by Malta and the United States of America.

3. The essential outcome of the Preparatory Meeting was a recommendation for the convening of a second intergovernmental group of experts not later than July 1979, to be followed by a seventh preparatory meeting not later than September 1979. The Second Intergovernmental Group of Experts on Copper would undertake a technical examination of the implications and effectiveness, and the costs and benefits to both producers and consumers, of an international arrangement for copper, based on a series of designated elements used either singly or in combination.

4. The essential character of the remit to the Second Intergovernmental Group of Experts on Copper is similar to that to the First Intergovernmental Group of Experts, which held five sessions, from November 1976 to November 1977.

Hard fibres

(a) *Abaca*

5. The Working Group on Abaca (21-23 February 1979)[2] reviewed a list of projects for a possible technical improvement programme. The Group had a preliminary exchange of views on the technical issues raised by the projects and on their implications for a possible programme. It agreed that as the next step Governments should submit their written comments to the FAO secretariat for dissemination, after which the FAO secretariat, in co-operation with the secretariat of UNCTAD, would consult with Governments to decide whether a panel of experts would need to be convened for a further examination of the project proposals. The eventual list of projects, with priority indications, will be submitted to the fourth preparatory meeting on hard fibres.

6. The Working Group considered that, once priorities had been agreed for the proposed projects, the fourth preparatory meeting could examine the question of devising a possible international arrangement with over-all responsibility for a technical improvement programme for abaca and its products. The major abaca exporting countries stated at the meeting that they hoped that the issues of price and supply stabilization would be discussed at the fourth preparatory meeting.

(b) *Coir*

7. The Working Group on Coir (19-21 February 1979)[3] examined a list of project proposals for a technical improvement programme for that commodity. While considering it a useful basis for further work, it felt that the list was not complete in all respects. The Group therefore recommended that a small panel of experts, nominated by Governments, should be convened under the auspices of FAO, in co-operation with UNCTAD, to carry out a detailed technical examination of all project proposals. The panel's report will be made to the fourth preparatory meeting on hard fibres and to the third meeting of the FAO *Ad hoc* Working Party on the Establishment of Coir international.

8. Regarding the latter question, the FAO *Ad hoc* Working Party at its second meeting (held in the week preceding the UNCTAD Working Group on Coir) brought about a significant convergence of views on a number of issues. There was wide agreement that Coir International should be an intergovernmental body with producer and consumer participation. The Working Party agreed that every effort should be made at its next meeting to finalize the preparatory work for the establishment of Coir International, and it requested the FAO secretariat, in co-operation with the UNCTAD secretariat, to prepare in the meantime a document on options for the legal status and the principal elements of the constitution of Coir International.

9. In deciding on the timing of the various related meetings on coir under FAO and UNCTAD auspices, Governments may wish to keep in mind the desirability of these meetings reinforcing each other in efforts to establish Coir International, within the broader framework of international action on hard fibres under the Integrated Programme for Commodities.

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[1] The report of the meeting was distributed as document TD/B/IPC/COPPER/16.

[2] The report of the Working Group was distributed as document TD/B/IPC/HARD FIBRES/13.

[3] The report of the Working Group was distributed as document TD/B/IPC/HARD FIBRES/12.

DOCUMENT TD/229

Action on export earnings stabilization and developmental aspects of commodity policy

Report by the UNCTAD secretariat

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[*8 March 1979*]

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Introduction

1. The Integrated Programme for Commodities, as established by the United Nations Conference on Trade and Development at its fourth session in resolution 93 (IV), was an important first step by the international community to deal with the world commodity problem in a way which recognized the interrelated nature of the various elements of this problem and the need for orderly international management of global resources. The Integrated Programme for Commodities, therefore, brought within its scope objectives which sought simultaneously to stabilize world commodity markets and to develop the commodity economy of developing countries.

2. There are two aspects to the stabilization objective—the avoidance of excessive price fluctuations based on agreed criteria, and the stabilization of export earnings through compensatory financing. The price stabilization objective is being approached largely through the action taken to negotiate the establishment of a common fund, which would be the key mechanism for financing price stabilizing buffer stocks, and to set up international commodity agreements. The progress made on the implementation of these aspects and recommendations for further action in this regard are dealt with in a separate report.[1]

[1] See documents TD/228 and Add.1, reproduced in the present volume.

3. The other aspect of stabilization—compensatory financing for fluctuations in commodity export earnings—has not yet been examined under the Integrated Programme and the present report offers specific proposals for further action in that regard. The non-stabilization aspects of commodity policy also have not yet played an important part in the preparatory activities for individual commodities, and proposals in that connexion are made in this report. These aspects relate broadly to the development of primary commodity processing for export, the improvement of marketing and other development aspects such as research and development, market promotion and the horizontal diversification of production.

4. On the stabilization issue, there is no doubt that the fluctuation of prices in the recent past has greatly accentuated. It would, however, be very difficult to predict future trends in price instability and such forecasts could be subject to a wide margin of error. Nevertheless, even if the variability of prices should abate somewhat in the years ahead, the reduction of excessive price instability through international commodity agreements and the facilities available through the common fund for financing buffer stocks would still remain a prime target of international commodity policy. The stabilization of prices would, however, for reasons discussed below, leave a substantial residue of instability in commodity export earnings. Adequate compensation for such instability is therefore essential to a comprehensive attack on the commodity problem.

5. At the same time, action is urgently required on the developmental aspects of commodity policy. These include, in particular, the expansion of processing of primary commodities in developing countries and the restructuring of marketing and distribution systems so that developing countries can increase their earnings from primary commodity exports. The adoption by the international community of appropriate policies in these fields would therefore be complementary to the stabilization policies now being pursued in the commodity preparatory meetings under the Integrated Programme. Such policies may best be developed within a general framework which ensures a consistent approach to the development of the commodity sector of developing countries, at the level both of commodities in general and of individual commodities. This is a long-range task which would naturally extend beyond the present time-horizon of the Programme. Not only, therefore, will it be necessary to integrate it into the regular programme of work of the secretariat, but appropriate policy-making intergovernmental machinery will be essential.

CHAPTER I

Stabilization of export earnings through compensatory financing[2]

6. Ever since its inception, UNCTAD has given a central place in its general analysis of the development problem and of international commodity policy to the issue of compensation for shortfalls in the export earnings of developing countries. To the extent that economic development depends on imports, particularly of capital goods, it can be programmed only on the assumption that the required volume of disposable foreign exchange will be available.[3] Excessive and unpredictable fluctuations in export earnings are therefore a serious obstacle to economic development in the developing countries. Compensatory financing is intended to help with this problem.

7. Price instability accounts for a substantial part of the fluctuations in export earnings, the remainder being due to quantity shortfalls. The 10 commodities identified under the Integrated Programme for Commodities[4] for price stabilizing buffer stock arrangements accounted in 1976 for about 25 per cent of the foreign exchange earnings of developing countries, excluding those derived from petroleum exports. To the extent therefore that the initiatives taken under that Programme for the establishment of a common fund and international commodity agreements succeed in stabilizing prices, fluctuations in export earnings would be attenuated.

8. However, such initiatives cannot deal fully with the situations that arise for individual countries as a result of the fluctuations in their commodity export earnings. Even if they were to achieve perfect price stabilization across the board, there would be a substantial residue of uncorrected earnings instability due to quantity variations. In addition, several of the commodities important in the export trade of individual countries may not be covered by international commodity agreements and the facilities proposed for the common fund. Some of the commodities may be of a perishable nature and therefore not suited to the buffer stock method of price stabilization, and for others such arrangements may not be possible. Action on price stabilization and compensatory financing have therefore to proceed simultaneously in order to stabilize effectively the commodity export earnings of the developing countries.

9. There are at present two compensation schemes in operation: the compensatory financing facility of IMF and the Stabex[5] scheme. The former scheme relates drawings to shortfalls on over-all merchandise trade subject to there being a balance-of-payments deficit, while the latter relates drawings to shortfalls on individual commodities included in the scheme (that is, it is commodity-specific), regardless of the state of the balance of payments.

10. Both schemes have, however, proved to be most inadequate to satisfy the developing countries' need for compensation for shortfalls in export earnings.[6] In the case of the compensatory financing facility of IMF, total drawings during the period 1963-1975 amounted to only 11 per cent of total shortfalls. In 1976, the year of maximum drawings in the history of this facility, the corresponding percentage was only 9 per cent. Among the important substantive limitations from which this facility suffers are the quota ceilings applicable to drawings under it, the regressive pattern of the quota distributions themselves, the exclusion of adjustments in determining compensation for changes in import prices and the stringent repurchase conditions which make no distinction among countries with respect to the terms applicable or to ability-to-pay criteria.

11. In the case of Stabex, the funds earmarked for a five-year period amounted to only EUA 400 million, to be divided equally into five yearly instalments. Moreover, the scheme suffers from other serious limitations. The beneficiary countries are restricted to the ACP group, and only 7 of the 18 commodities covered by the Integrated Programme for Commodities are included in the list of commodities eligible for compensation. In addition, each of the eligible commodities must individually be of sufficient significance in a country's export earnings and there must be a minimum level of shortfall of earnings from the export of that commodity in order to qualify for compensation. These threshold conditions, together with the ceiling fixed for total compensation, effectively restrict the claims on Stabex.

12. Certain proposals are currently before IMF for a further liberalization of the compensatory financing

[2] See "Compensatory financing. Issues and proposals for further action: report by the UNCTAD secretariat" (TD/229/Supp.1 and Corr.1).

[3] See "Towards a new trade policy for development: report by the Secretary-General of the Conference" in *Proceedings..., First Session*, vol. II, *Policy statements* (United Nations publication, Sales No. 64.II.B.12).

[4] See Conference resolution 93 (IV), sect. II.

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

[6] Details are given in TD/229/Supp.1 and Corr.1, and in "Compensatory financing for export fluctuations: note by the UNCTAD secretariat" (TD/B/C.3/152).

facility. They include raising the limit on outstanding drawings from 75 to 100 per cent of a country's quota, including earnings from invisibles in the basket of export earnings, and covering the excesses in the cost of cereal imports as a means of partially compensating for real shortfalls in earnings. However, in view of the fact that so far the coverage of shortfalls as calculated by the accepted formula has been relatively so small, the proposed relaxation of the limit on outstandings is unlikely to make a marked difference to the coverage of these shortfalls. As for the other two proposals, they will, if implemented, have the effect of raising somewhat the formula shortfalls. But given the state of quota limits on drawings and outstandings, this will mainly serve to reduce the proportion of cover that drawings provide for shortfalls. There is therefore considerable scope for liberalization of the IMF facility beyond these recent proposals. This matter may be more conveniently pursued in the context of the issues on reform of the international monetary system.[7]

13. However, the need for a commodity-related complementary facility has become increasingly apparent. Such a facility would provide an essential element in a package of measures which, taken together, are aimed at strengthening the commodity sector of developing countries and the capacity of that sector to contribute to general economic development. The problem of the adverse impact of excessive variability of foreign-exchange earnings on the planning of future economic development has long been recognized. However, an aspect of this problem which is not dealt with by balance-of-payments-related compensation is the foreign-exchange cost incurred as a result of shortfalls of earnings in specific commodity sectors. Thus, for internal expenditure, adjustment intended, for example, to correct falls in employment and income in specific commodity sectors usually has a substantial foreign-exchange component. This component is not reflected in compensation schemes which are based solely on over-all shortfalls in foreign-exchange receipts. On the other hand, to the extent that such internal expenditure adjustments are not made because of the foreign-exchange costs they would give rise to, the balance-of-payments effect of shortfalls in commodity earnings takes the form of a reduction in the level of employment and income of the specific commodity sector in which such shortfalls occur. These facts are implicitly recognized in the Stabex scheme in its exclusion of the balance-of-payments test.

14. Adequate compensation for commodity-related shortfalls would therefore entail delinking drawings from quotas and the balance-of-payments criterion, both of which are important features of the IMF facility. It would also entail a facility whose size and conditions for drawing and repurchase would be designed exclusively to meet the particular needs and capacities of developing countries. These are not characteristics of the IMF facility, which is open to all member countries, both developed and developing, and whose rules are uniformly applicable to all countries. A complementary commodity-related facility is likely to involve substantially larger sums than those which have been available to developing countries through the IMF facility. However, establishing such a facility specially designed for developing countries would call for a smaller commitment of funds than raising to a sufficient extent the quota limits of the IMF facility, open as it is to developed countries.

15. The general principles recommended for such a complementary facility, aimed at compensation for commodity-specific shortfalls in export earnings, could include the following:

(*a*) Access to the facility would be open only to developing countries;

(*b*) It would cover all commodities (foods, agricultural raw materials, minerals and metals) subject to an agreed definition;

(*c*) Compensation would be available to countries on the basis of their commodity-specific shortfalls, after taking into account their drawings under the IMF facility and the Stabex scheme;

(*d*) The shortfall formula would be based on a sufficiently long-term trend and would make allowances for changes in the import purchasing power of export earnings;

(*e*) Repurchase of compensation would be related to the country's ability to repay, using such criteria as the position of its balance of payments and its reserves.

16. Several courses of action would be open to Governments in establishing such a complementary facility. It might be conceived as an extension of the existing Stabex scheme, suitably revised; alternatively, it might be established as a third window of the common fund, as a separate facility within an existing international financial institution, or as a completely new international financial institution.

17. Whatever the institutional arrangements agreed upon, developing countries would continue to retain their drawing rights under the compensatory financing facility of IMF. Once a country's shortfalls (commodity-specific as well as over-all shortfalls) are determined in accordance with the agreed formula, the country's net eligibility for drawing would be calculated after allowance is made for the amount of compensation that would be available under the IMF facility. The proposed facility would therefore have to work closely with IMF in functioning as a complementary facility and as a lender of last resort.

18. The cost of adequate and comprehensive compensatory financing arrangements would depend primarily on the amplitude of future fluctuations in export earnings and on the modalities established. The experience of the recent past has provided certain estimates[8] which could be of some relevance in this connexion. If, for example, shortfalls had been measured in commodity export earnings, all in one basket, with reference to the long-term trend and after taking into account the changes in import prices, the total amount required during the period 1960-1976 to compensate fully for shortfalls would have been $29.1 billion for 74 non-oil-exporting countries. Almost two thirds of this figure ($19.2 billion) is accounted for in two years—1975 and 1976—which were preceded by an exceptional boom in commodity prices. In this connexion, too, it may be noted that the United States of America made a proposal in 1975 at the seventh special session of the General Assembly for a

[7] See document TD/233, reproduced in the present volume.

[8] *Ibid.*

$10 billion development security which was aimed at stabilizing the export earnings of developing countries only. Furthermore, in September 1978 the Federal Republic of Germany brought up in the Joint Ministerial Committee of the Boards of Governors of the Bank and the Fund on the Transfer of Real Resources to Developing Countries (Development Committee) a proposal that anticipated compensatory financing of up to $5 billion over a period of 10 years. As regards financing arrangements, there are some considerations in this regard which it might be worth while bearing in mind when the feasibility of this matter is being examined in detail. First, irrespective of the proportion of the total needs it proves feasible to meet, the entire financing of this facility does not necessarily have to be attempted through paid-up government contributions. It is possible to provide for voluntary interest-bearing contributions from various sources, some of which may be in the form of trust funds, and by borrowing as and when required from the international capital market. In this connexion, the proposal put forward by Sweden at the seventh special session of the General Assembly envisaged a separate fund for compensatory financing being set up, financed out of contributions from Governments and borrowing from the capital market in the ratio of 1 to 3. Similarly, the proposal of the Federal Republic of Germany mentioned above anticipated relying on both government contributions and borrowing from the capital market, but without specifying the proportion in which funds would be raised from these two sources. Finally, pursuant to the decision that the gold-holdings of IMF will gradually be liquidated, consideration might be given to making the proceeds of the sale of a portion, if not all, of the quantity still held by IMF available to this complementary facility to constitute its capital base.

19. If, because of limited financial resources, the proposed complementary facility cannot cover fully the gross commodity-specific shortfalls of the developing countries, it would be appropriate to set out in detail the basis on which shortfalls would be covered. In view of the fact that commodities less amenable to international stocking arrangements are liable to suffer more from the impact of fluctuations in earnings than commodities which are so amenable and that the lower the per capita income of a country the greater is likely to be the impact on it of a given shortfall in export earnings, it may be worth while considering whether differentials should not be introduced to allow for larger coverage of shortfalls attributable to commodities not covered by international stocking arrangements and of shortfalls of the least developed countries. The proposed facility, however, would still have to strive to provide maximum coverage for the shortfall in export earnings of all developing countries.

20. At its fifth session, the Conference might therefore accept in principle the need for commodity-specific compensation for shortfalls in export earnings and request the Secretary-General of UNCTAD, in consultation with relevant international financial institutions, to prepare feasibility studies for such a scheme covering modes of operation, financial requirements and possible sources of financing. A special session of the Trade and Development Board might then be convened at the ministerial level within an agreed time-table to consider appropriate action.

CHAPTER II

Processing of commodities of export interest to developing countries[9]

21. Developing countries have been pressing in various international forums for measures which would facilitate the development of local processing activities of their primary commodities and the expansion of trade in such commodities. Past as well as current rounds of multilateral trade negotiations in GATT bear witness to their claims for the removal of tariff and non-tariff barriers hindering the development of such trade. Within UNCTAD these objectives have been pressed at various sessions of the Committee on Manufactures and were also recognized in Conference resolution 93 (IV) on the Integrated Programme for Commodities.

22. The discrimination which exists in the tariff structures against commodities in semi-processed or processed form was also a major subject of debate at the Conference on International Economic Co-operation. In this connexion, it may be recalled that the participants in that Conference, when addressing themselves to the problem of the indexation of commodity prices or puchasing power of developing countries, agreed that "the long-term answer to this problem lies mainly in the local processing of the raw materials and in the establishment of manufacturing industries in the developing countries, permitting *inter alia* adequate market access to the developed countries by eliminating or reducing tariff and non-tariff barriers (to the extent possible)".[10]

23. The adoption of the Lima Declaration and Plan of Action on Industrial Development and Co-operation was itself a reassertion of the dynamic role that the industrialization of specific commodity sectors can play in the economic and social development of the developing countries.[11]

24. In spite of all these efforts at an international level, the results so far can be considered to be meagre. It is still the case that only a small percentage of the processing of raw commodities exported by developing countries into products in semi-processed or processed form is done before export. And yet there is considerable scope for increasing the amount of processing before export in the developing countries.

25. The focus of the present proposals for international action is on some of the areas of the interdependent relationship between developed and developing countries within which it is possible to make changes for the benefit of both groups. The export of semi-processed or processed commodities faces an increasingly dense network of discriminatory practices and obstacles in the markets of developed countries. The development of processing industries in developing countries also encounters many barriers

[9] See also document TD/229/Supp.2, reproduced in the present volume.

[10] A/31/478/Add.1, sect. II, subsect. F, para. 2.

[11] 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 (ID/CONF.3/31, chap. IV).

originating in the structure of the same industries in developed countries or their overseas affiliates. Thus the areas for co-operation must include not only rationalization of tariff and other trade barriers but also means for strengthening the bargaining power of the developing country processors and exporters vis-à-vis transnational corporations.

26. The current and past efforts at liberalization of trade with respect to tariff levels in developed countries have not removed much or any of the discrimination which exists in the tariff structures against export products of developing countries, especially those products of commodities in semi-processed or processed forms. In fact, the very liberalization has sometimes acted to increase the discrimination against commodities in which developing countries have a comparative advantage. Therefore, one area in which international co-operative action could aid developing countries is the removal of this discrimination in tariffs against the exports from developing countries, within the general trade liberalization initiatives being pursued by the international community. A possible approach would be to negotiate tariff reductions by commodity sector, considering only reductions which affect all forms of a commodity equally or with a bias towards more processed products.

27. The failure of past approaches should, however, not necessarily influence the results of negotiations in this field in the future. Developing countries are beginning to recognize that trade liberalization involves a bargaining process in which access to their markets for manufactured goods as well as their capacity to supply raw materials can be used effectively as reciprocity. Such an idea is being expressed in some developing countries through organized trade procurement policies and such devices as prohibitions or quotas on the export of their commodities in raw form or semi-processed forms.

28. Non-tariff barriers such as quotas and variable levies tend to rest most heavily on the commodities of export interest to developing countries and especially on processed forms of these commodities. Removal of this discriminatory practice through international co-operative action would also promote increasing processing in developing countries. The third type of policy action in the area of removing discrimination would be an extension of the generalized system of preferences to include processed products of primary commodities (CCCN chaps. 1-24) within the context of the proposals being made to liberalize the restrictions applied under this programme. There is, moreover, a clear case for changing the lists of "sensitive" products, as most of these are processed forms of primary commodities of export interest to developing countries. This would extend the area of preference to more products of export interest to developing countries and encourage their export in a semi-processed or processed form.

29. Other areas where action could be taken to improve the competitive position of processed commodities from developing countries are basically tied to increasing their bargaining power. These include the closer supervision by Governments of the pricing and marketing policies, including cartel practices, used in transnational corporations and other related party transactions, with the aim of removing discrimination against processing industries in developing countries.

30. While the removal of discriminatory barriers to increased processing in developing countries is a priority area of concern, there is a line of action for international co-operation which is more positive in intent. This concerns the possibilities for international action in increasing the financing available for the development of processing industries in developing countries through international financial institutions, particularly the World Bank and its affiliates, the International Development Association and the International Finance Corporation, as well as the regional development banks. This area of economic activity has been only marginally supported in the past by these institutions. An increased and more balanced commitment towards this end would be one way of ensuring that financial barriers to the processing of raw materials, particularly minerals and metals, are overcome, and also that developing countries are not forced into disadvantageous relationships with transnational corporations in developing the potential of their commodities because of the size of the investments involved, particularly where, as in primary processing, access to technology is relatively open.

31. The translation of such ideas into action would be assisted if the international community were to think of developing more systematic and longer-term approaches to the development of the world commodity sector, particularly in regard to the processing of raw materials. Since the potential and aspirations of developing countries may to some extent be in conflict in the latter respect with the interests of developed countries, such approaches should seek to find ways of harmonizing developments in this field. Improved global management is increasingly being determined by the growing interdependence of the various parts of the world economic system, and this implies that actions based simply on the principle of each for his own must therefore give way to actions which are mutually supportive.

32. Operationally, such ideas could be advanced by the development of generally feasible perspective targets which would be of some guidance to the international community in progressing towards an equitable distribution of the benefits of resource development as well as in avoiding cyclical occurrences of too much or too little investment and production in parts of the world economic system. These ideas would equally require that closer attention be paid to the adequacy, comprehensiveness and consistency of the relevant international co-operation policies, to the continuous surveillance of the implementation of agreed policies and to the evaluation of their effectiveness.

33. Responsibility for such a development would need to be vested in some continuing intergovernmental mechanism, such as the Committee on Commodities of the Trade and Development Board or any subsidiary body set up by it. If such an arrangement is to serve satisfactorily the purposes intended it should exercise policy-making functions in the field of its competence. Those functions should relate to specific measures, elaborated within a framework of comprehensive and consistent policies, which could be adopted by the international community, whether for individual commodities or commodities in general, to ensure the progressive expansion of processing of primary commodities in developing countries and of their export of such products.

34. The technical work and other activities entailed would necessarily extend beyond the present time-horizon of the Integrated Programme for Commodities. They would therefore need to be integrated into the regular programmes of the secretariat.

CHAPTER III

Marketing and distribution of primary commodities of export interest to developing countries[12]

35. Developing countries have a generally weak control over the marketing of their primary commodities. This control more often than not stops at their national borders. At the international level, the marketing system is dominated by developed market-economy country manufacturing and consumer interests, be they transnational enterprises or large trading firms.

36. Although the origins of this situation of unequal market power lie in the historical evolution of the present economic order, the expansion of colonial empires and the spread of international capitalism, the subordinate position of developing countries in the marketing and distribution of their primary exports survives today with but little improvement here and there. The dominant position of developed countries in this regard is now maintained through the power of transnational oligopolistic enterprise which is set firm in an inextricable combination of control over finance, technology, production, transport, markets, promotional services, information and distribution channels, in ways which have been repeatedly exposed in the now voluminous literature on this subject.

37. An inescapable conclusion is that the development of an effective countervailing force against such concentrations of power will, to a large extent, depend on the actions which developing countries, and in some cases developed countries as well, can and actually are beginning to take at the level of their Governments. Both the resources required and the degree of co-ordinated action that must be exercised to counteract the adverse effects generated by these centres of economic power would be difficult to achieve by small, competing, national private-enterprise units.

38. There are several specific manifestations of the lack of balance in market power which are useful in identifying measures by which the present inequalities might begin to be redressed. These include, first, a weak degree of control and management of primary commodity supplies by developing countries. Even though there has been a considerable increase in control over national resources through nationalization, particularly in minerals and metals and some plantation crops, and national marketing systems, the effects of these moves have been within the countries concerned, as they are still excluded from important sections of the distribution channels outside their borders. Moreover, control over supply does not necessarily imply an ability to manage it to the best interest of the producers. Financially weak developing countries are frequently forced to time a considerable proportion of their sales in accordance with the urgency of their foreign exchange needs.

39. Secondly, there is a concentration of control over international production, marketing and distribution for many primary commodities. The dominant market power held by the transnational corporations provides substantial scope for manipulation of prices for commodities (either raw or processed) involving transactions both between parent companies and their subsidiaries and between individual subsidiaries themselves. Especially in cases where there is no readily identifiable "market" price, developing countries are liable to suffer from underpricing of exports by transnational corporations. In several countries, the imposition of an *ad valorem* export tax provides an incentive to reduce export transfer prices, as do certain other government measures such as exchange controls and limits or taxes on profit remittances abroad.

40. Thirdly, efforts by developing countries to enter into the international marketing and distribution of their commodities are often hindered or prevented by the system of product differentiation and brand names, backed up by extensive advertising networks, used by firms already in the market.

41. Fourthly, the problems of unequal access to market information have often been singled out as key problems in commodity trade. By virtue of vertical integration, transnational corporations enjoy access to general and complete information covering the activities of all their units operating at the various stages of the product cycle and at various locations. Conversely, developing countries often lack sufficient information on all aspects of commodity trade in their bargaining with such corporations. This information problem is compounded by the current structure of commodity exchanges, which virtually exclude exporters as members. Often the large trading houses or brokers, by controlling a very large volume of future contracts during delivery months, are in a position to manipulate prices to their advantage. Developing countries are thus not connected directly with the exchange and are at the mercy of its price-setting function for their exports.

42. Fifthly, the bargaining position of developing countries is further weakened by the ever-growing ability of the transnational corporations to diversify their sources of supply countrywise and productwise. Because of the pervasive role of the transnational corporations, which cut across national frontiers, commodity exports in developing countries are often dependent on the needs of, and the alternatives open to, the corporations operating in that particular commodity. The importers' marketing flexibility is enhanced by the numerous possibilities of cross-commodity substitution.

43. Lastly, since the transport of primary commodities for export is carried out predominantly in vessels owned by interests in developed importing countries, the developing exporting countries forgo large potential invisible earnings from the shipping of their primary products. In the case of some commodities, vertically integrated transnational corporations own captive tonnages (or control them through affiliates) or maintain chartered fleets. Increased participation by developing countries in the maritime transport of their commodity exports would also enable these countries to exercise greater control over the timing of

[12] See also document TD/229/Supp.3, reproduced in the present volume.

shipments, thus improving their stocking and marketing strategies.[13]

44. All the factors mentioned above, most of which are related to the pervasive role of transnational corporations, have the effect that a small and, in some cases, declining fraction of the consumer price is received by the producer of a commodity. While direct evidence on the cost and profits chain by commodity is scanty, the assessments indicate that margins for wholesalers and retailers are often greater than the producer's price, and that often fiscal charges by developed countries represent a large share of the total.

45. The nature of the marketing and distribution problem is therefore such that the main remedial actions will have to be taken nationally or collectively by developing countries, principally through the creation of new channels or new arrangements for the commercialization of their export merchandise. Such actions have indeed already begun and they will need to be strengthened and expanded. They have taken a variety of forms, such as nationalization to increase control over resources, efforts to increase the retained value of commodity exports through increases in local taxes and royalties, and efforts to control the external marketing of these exports through systems of centralized marketing or regulation of export prices. There have also been efforts to increase and strengthen producers' associations in a number of commodities. Other efforts by developing countries to improve the marketing of their exports have included the exchange of information, training programmes, the harmonization of marketing policies, and the setting up of joint marketing companies and joint promotional campaigns.

46. On the international plane, the lack to date of co-ordinated action suggests that a general framework for international co-operation on marketing and distribution is needed. While it would be premature to set out comprehensively the components of such a framework, certain elements of it can now be put forward. They include financial and technical support for national and co-operative efforts by developing countries to improve their marketing and distribution systems, equitable sharing of revenues collected by developed countries from taxes on developing countries' primary commodities, increased commitment of resources by the international community for expanding the technical work on commodity markets, and appropriate intergovernmental machinery for policy-making on international co-operation in this field.

47. Most importantly, international efforts should be supportive of national and co-operative efforts in developing countries. Direct support could be financial or technical. Direct technical support to individual developing exporting countries, especially the least developed, could be handled by an appropriate existing international agency and could consist of advisory and consultancy services for the establishment of or improvements in marketing boards and State-trading organizations and investigations of the legal and other obstacles that developing countries face in developed countries (both market economies and the socialist countries of Eastern Europe) in marketing their products. With regard to the financial needs of these activities, at present no international lending agency is financing national stocks, the holding of which is a prerequisite for effective market staying power in the case of many commodities. Increased efforts by existing international financial institutions would also be needed to finance storage facilities and improvements in internal transportation systems. For producers' associations, technical and financial support by the international community for the purpose of establishing systems for collecting, analysing and disseminating relevant market information, assisting the formation of joint marketing boards through financing of their working capital for stock acquisition and holding (this is not currently being done by any international agency), and aiding exporters to get representation on commodity exchanges by relieving the financial and institutional constraints.

48. Supportive action by the international community should also include an increased commitment of resources to carry out detailed investigations of the market structures for all primary commodities of export interest to developing countries, with initial emphasis on the commodities envisaged in section II of Conference resolution 93 (IV). These studies should provide detailed information on different market structures and different relative bargaining positions if they are to be useful in the formulation of policy proposals appropriate for each commodity and commodity marketing generally. Such support should also extend to other areas of marketing on which very little work has so far been undertaken but which could be improved from the standpoint of the interests of developing countries. These include the functioning of commodity exchanges in developed countries (largely the United States of America, the United Kingdom and France) and the use of long-term contracts, especially for minerals and metals. With regard to commodity exchanges, it is important for the restructuring of commodity trade to find mechanisms and agreed standards by which they can adequately accommodate the interests of developing countries. With regard to long-term contracts, their various features and their impact on price formation need to be investigated with a view to exploring the possibility of establishing internationally agreed standards which would provide some protection for the weaker bargaining partners.

49. The structure of taxation in developed importing countries has a discriminatory effect on developing countries as it affects import duties and excise and consumption taxes on primary tropical commodities. A substantial economic rent is thereby being absorbed through its impact in consumer countries. Over $1 billion of internal charges and tariffs are now being collected in the European Economic Community countries and Japan on primary tropical commodities. As mentioned above (para. 46), this burden could be relieved by an equitable sharing among developed and developing countries of the revenues collected from developed countries' taxes on such commodities and their products.

50. The Integrated Programme for Commodities envisaged the establishment of international commodity agreements with multidimensional measures. The preparatory meetings held on international commodities under that programme have, however, centred largely on measures to stabilize commodity markets rather than on action programmes to improve marketing and distribution systems. Yet it has been evident that, for some com-

[13] See document TD/222, reproduced in the present volume.

modities, marketing and distribution problems were paramount.

51. It appears therefore that more specialized intergovernmental policy-making machinery may be needed for effective action on the international co-operative aspects of the marketing and distribution of primary commodities, in conjunction with that proposed earlier in this report (para. 33) for the processing of commodities of export interest to developing countries.

CHAPTER IV

Other developmental aspects of international commodity policy[14]

52. In the context of an integrated approach to commodity policy, the development of the commodity sector of developing countries would include, *inter alia*, support for research and development, horizontal diversification and market promotion. The main questions on which this aspect of commodity policy turns are the adequacy of international financial support for these measures, the extent to which existing support and institutional mechanisms are focused globally and across commodities, and the extent to which developing producing countries themselves participate in decisions on these matters.

53. While the amount of finance committed by these institutions for commodity-related projects may appear impressive at first glance, relatively little has been done in terms of the kinds of development measures envisaged by the Integrated Programme for Commodities. As an example, for the 18 commodities covered by the Integrated Programme, no market promotion activity was undertaken in 1977 by the international financial institutions; direct lending for technical research and extension was concentrated on food grains and no development activity was financed for commodities facing competition from synthetics. Similarly, nothing was done in the field of international distribution and marketing. As far as horizontal diversification for commodities in a weak trade position is concerned, only one project could be identified which has this as an explicit objective. In all cases, loans were confined to projects in individual countries; no multinational commodity measures were financed.

54. The lack of emphasis given by the international financial institutions to the kinds of developmental measures under discussion is more easily understood when viewed in the context of their basic project/country orientation. Since it is Governments rather than commodity organizations which comprise their membership, and since it is individual Governments which are legally responsible for the repayment of loans, it is not surprising that the basic point of departure of these institutions is to decide what can be done on behalf of a particular country and to finance projects expected to have a favourable impact on that country. However, the benefits of many of the commodity development measures envisaged are likely to accrue to all producers of the commodity in question or even to the world as a whole rather than only to the country in which the measure is undertaken. For individual countries, the rate of return for such measures, as calculated by these institutions, is likely to be low or even negative, since only the impact within the host country is considered in the economic appraisal of projects and the welfare effects on the world as a whole are ignored.

55. Since the benefits of many of the types of development measures envisaged are essentially global in nature, it would be reasonable to consider that the costs should be similarly distributed. This would mean, however, lending to commodity organizations or producers' associations rather than to Governments, which international financial institutions have not been able to do.

56. Similar problems may result from the fact that, while commodity problems are global, membership in international financial institutions is not. This is certainly true for the regional development banks, since few commodities are produced in only one region of the world. The World Bank itself does not have universal membership; in all, some 20 countries representing more than 10 per cent of exports and 13 per cent of imports of the commodities covered by the Integrated Programme would be ineligible to participate in measures financed by the World Bank, even if they accounted for an important share of the world market.

57. Finally, the decision-making structure in international financial institutions is heavily weighted in favour of consuming countries.[15] It is not clear, therefore, that such a structure could adequately represent the views of producers on the financing of commodity development measures. In the World Bank, for example, the contrast in voting strength between consumers and producers is striking for many commodities, particularly those facing competition from synthetics or characterized by global structural problems of over-supply. Despite the fact that voting is not the basis for day-to-day operations, this structure may not always lend itself to striking the right balance between producing and consuming countries.

58. The deficiencies that exist with regard to the adequacy of finance for these commodity development measures, the absence of a global and cross-commodity focus in the present international financial system and the inadequate participation of developing countries in decision-making therein have therefore provided strong support among developing and some developed countries for the operation of an effective second window within the common fund devoted to the financing of commodity development measures other than buffer stocking.

59. The international community, therefore, might re-emphasize the importance of these measures in an integrated approach to the commodity problem by committing itself to endow the second window of the common fund with adequate and renewable financial resources for all commodities envisaged in Conference resolution 93 (IV), commensurate with needs in these fields. The formulation of a medium-term programme setting out the financial requirements of those commodities in such fields as

[14] See also "International financial support for selected measures to strengthen commodity markets in the fields of horizontal diversification, research and development and market promotion: report by the UNCTAD secretariat" (TD/B/IPC/AC/25).

[15] Except in the case of the African Development Bank.

diversification, research and development, and market promotion would be a useful contribution to the common fund, other international financial institutions and public and private investment agencies in promoting global and cross-commodity co-ordination and consistency in investment, production and marketing plans.

CHAPTER V

Summary of proposals

60. The Integrated Programme for Commodities includes several measures other than price stabilization. These measures have not so far been considered in any detail. The following is a summary of the proposals made in this report which Governments may wish to consider adopting in moving on to those other aspects of the Programme.

A. The stabilization of export earnings through compensatory financing

Agreement in principle on the need for a "complementary facility for commodity-related shortfalls in export earnings". Should the Conference decide to proceed broadly along the lines indicated above (paras. 13-17), agreement would also have to be reached on: (*a*) the procedures for the preparation of feasibility studies for such a scheme covering modes of operation, financial requirements, and possible sources of financing (the Secretary-General of UNCTAD, in consultation with relevant international financial institutions, might be requested to undertake these preparations); (*b*) the intergovernmental machinery to consider appropriate action. For this purpose a special session of the Trade and Development Board might be convened within an agreed time-table at ministerial level.

B. The processing of commodities of export interest to developing countries

(*a*) Development of a framework, incorporating a longer-term perspective, for international co-operation for expanding the export-oriented processing of primary commodities in developing countries. This framework should include a comprehensive and consistent set of policies and measures relating, *inter alia*, to the removal of discriminatory barriers to trade and other conditions of access to markets, investment requirements and new forms of joint co-operation on the processing of export commodities.

(*b*) Appropriate intergovernmental machinery for action in this field (see sect. E below).

C. The marketing and distribution of primary commodities

Recognition of the need for a policy framework for international co-operation on the marketing and distribution of primary commodities of developing countries. Such a framework could include the following elements:

(*a*) Commitment to increase the technical and financial support from developed countries and international financial institutions for the development of indigenous marketing and distribution systems in developing countries, including *inter alia*, financing national stocking, storage facilities, market intelligence, the establishment of joint marketing boards and State-trading organizations, and securing representation on commodity exchanges.

(*b*) Commitment to increase resources for expanding the technical work on the market structures of all primary commodities of export interest to developing countries, and other marketing arrangements, such as the commodity exchanges in the developed countries and long-term contracts in commodity trade, particularly minerals and metals.

(*c*) Equitable sharing between developed and developing countries of the revenues collected from developed countries' taxes on the primary commodity exports of developing countries.

(*d*) Appropriate intergovernmental machinery for action in this field (see sect. E below).

D. Other commodity development measures

(*a*) Commitment that the common fund should be endowed through its second window with adequate and renewable financial resources commensurate with the needs of all commodities envisaged in Conference resolution 93 (IV) in fields such as research and development, market promotion, diversification, and productivity investment.

(*b*) Support for the formulation of a medium-term programme setting out the financial requirements in such fields for all commodities envisaged in Conference resolution 93 (IV).

E. Institutional arrangements

Agreement on standing intergovernmental machinery, such as the Trade and Development Board's Committee on Commodities or any subsidiary body set up by it, for international co-operative action relating to the processing of primary commodities of export interest to developing countries and to the marketing and distribution of primary commodities. It is desirable that such machinery should exercise, in the fields of its competence, policy-making functions relating to specific measures applicable to individual commodities or to commodities in general.

ANNEX

List of background papers

TD/184/Supp.3 and Corr.1	Proportion between export prices and consumer prices of selected commodities exported by developing countries: study by the UNCTAD secretariat
TD/B/C.1/162	The marketing and distribution system for bananas: report by the UNCTAD secretariat
TD/B/C.1/163	Marketing and distribution systems for hides, skins, leather and leather footwear: preliminary report by the UNCTAD secretariat

TD/B/C.1/164	Marketing and distribution system for cocoa: report by the UNCTAD secretariat
TD/B/C.1/197	Measures to expand processing of primary commodities in developing countries: report by the UNCTAD secretariat
TD/B/C.1/205	*Marketing and distribution of tobacco* (United Nations publication, Sales No. E.78.II.D.14)
TD/B/C.1/207	The world commodity situation and outlook: report by the UNCTAD secretariat
TD/B/C.2/197	The role of transnational corporations in the marketing and distribution of exports and imports of developing countries: report by the UNCTAD secretariat
UNCTAD/MD/79	Processing of primary products in developing countries: problems and prospects: report by the UNCTAD secretariat
TD/B/IPC/AC/25	International financial support for selected measures to strengthen commodity markets in the fields of horizontal diversification, research and development and market promotion: report by the UNCTAD secretariat
TD/IPC/CF/CONF/Misc.10	Statistics of international trade in commodities covered by the Integrated Programme for Commodities, 1970-1976 (vols. I-III)

DOCUMENT TD/229/SUPP.2*

Processing before export of primary commodities. Areas for further international co-operation

Report by the UNCTAD secretariat

[Original: English]
[28 March 1979]

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LIST OF TABLES

* Incorporating document TD/229/Supp.2/Corr.1.

Introduction

1. The solution to the commodity problems of developing countries should be sought not only through the stabilization of prices and earnings but also through the development of their commodity economies. The expansion of the processing of raw materials in developing countries is one of the most important aspects of commodity development. This was recognized in resolution 93 (IV) of the United Nations Conference on Trade and Development on the Integrated Programme for Commodities, of which one of the stated objectives was to "diversify production in developing countries, including food production, and to expand processing of primary products in developing countries with a view to promoting their industrialization and increasing their export earnings".

2. International attention since the fourth session of the Conference has been focused primarily on problems of commodity prices, especially with respect to their stabilization. In the preparatory meetings held under the Integrated Programme for Commodities it has become increasingly apparent, however, that international action in other areas, including processing, is also urgently required. This paper, therefore, is concerned with evaluating the current situation with regard to the level of processed products in the exports of primary commodities from developing countries[1] and with explaning this level in terms of international barriers to its expansion. Thus attention is focused exclusively on areas amenable to international co-operative action and not on the broader problem of the industrialization of developing countries.

[1] The three most recent studies by UNCTAD on this subject are: "An integrated programme for commodities–Trade measures to expand processing of primary commodities in developing countries: report by the Secretary-General of UNCTAD" (TD/B/C.1/166/Supp.5), "Measures to expand processing of primary commodities in developing countries: report by the UNCTAD secretariat" (TD/B/C.1/197), and "Processing of primary products in developing countries–Problems and prospects: report by the UNCTAD secretariat" (UNCTAD/MD/79). Other recent documents, while not focused on the processing of raw materials, are nevertheless relevant, namely "Dynamic products in the exports of manufactured goods from developing countries to developed market-economy countries, 1970 to 1976: a statistical note by the UNCTAD secretariat" (UNCTAD/ST/MD/18); "Supply constraints in the field of exports of manufactures and semi-manufactures from developing countries: progress report by the UNCTAD secretariat" (TD/B/C.2/195); "The role of transnational corporations in the marketing and distribution of exports and imports of developing countries: report by the UNCTAD secretariat" (TD/B/C.2/197).

CHAPTER I

Processing in developing countries of primary commodities for export

3. In an attempt to provide an adequate assessment of the degree of and the scope for the processing of primary commodities in developing countries, this chapter examines the existing structure of commodity exports by stage of processing, evaluates the changes in this structure over the 1965-1975 decade and, finally, looks at possible gross foreign exchange gains to developing countries from further local processing.

A. Situation of developing countries in the export of processed commodities

4. For the analysis of the share of processed products in the exports of developing countries, 1975 OECD trade data for 27 selected product groups with their respective processing chains were used.[2] In 1975, trade in those groups represented about one half of total world non-petroleum imports from developing countries, and more than three quarters of OECD non-petroleum imports from the same source. About 58 per cent of these OECD imports from developing countries were raw form commodities and only 22 per cent were fully processed products.[3] By way of contrast, the structure of total OECD imports for the same commodities shows raw form commodities accounting for only 39 per cent, and fully processed for 33 per cent. Thus, the imports from developing countries were much more concentrated on raw form products than those from other sources (see table 1).

[2] A similar approach was used in an earlier UNCTAD document. See *The Kennedy Round: Estimated Effects on Tariff Barriers* (United Nations publication, Sales No. E.68.II.D.12), appendix tables A and B. In this study, different processing chains were defined for each individual product group, and each stage of processing was illustrated by items identified according to their SITC number. However, the original list of 21 product groups has been expanded to 27 product groups so as to include changes in the export structure of developing countries.

[3] For the purposes of the present analysis, three stages of processing are identified: raw form; semi-processed; fully processed. For some commodities, there are only two stages–raw form and fully processed–while for others, two or three stages have been compressed into the semi-processed one.

TABLE 1

Percentage distribution, by stage of processing, of OECD imports from developing countries and world, 1965 and 1975

	Percentage of product group imports in											
	Raw form				*Semi-processed form*				*Processed form*			
	Developing countries		*World*		*Developing countries*		*World*		*Developing countries*		*World*	
Product group	*1965*	*1975*	*1965*	*1975*	*1965*	*1975*	*1965*	*1975*	*1965*	*1975*	*1965*	*1975*
Coffee	99	95	98	93					0.3	5	2	7
Cocoa	90	78	62	50	10	21	19	25	0.2	1	19	25
Sugar	98	66	83	54	2	34	11	40	0.2	0.5	6	6
Rubber	99	92	59	25					1	8	41	75
Cotton	59	17	35	13	14	11	21	17	27	72	44	70
Jute	38	18	35	16	55	62	54	57	7	20	11	27
Sisal/henequen	83	65	53	29					17	35	47	71
Copper	10	21	8	19	86	78	75	59	4	1	18	22
Tin	33	21	26	18	67	79	73	81	0	0.1	0.6	2
Meat	76	68	79	83					24	32	21	17
Groundnuts	77	52	77	60					23	48	23	40
Copra	75	48	69	44					25	52	31	56
Palm kernels	90	35	79	31					10	65	21	69
Wood	63	53	25	34	36	40	68	55	0.6	8	7	11
Iron	93	82	42	36	7	18	54	60	0	0.2	4	5
Phosphates	91	85	66	80	4	4	18	9	5	11	16	11
Manganese	93	94	68	60					7	6	31	40
Aluminium	81	35	18	11	17	63	63	65	2	2	20	23
Fish	77	86	71	80					23	14	29	20
Fruit	86	81	80	77					14	19	20	23
Vegetables	78	72	80	72					22	28	20	29
Tobacco	96	95	88	75					4	5	12	25
Leather	49	12	35	15	30	20	23	17	22	68	42	69
Pulp and paper	20	5	3	3	47	47	37	33	33	49	60	63
Wool	95	89	61	50	1	8	15	18	4	14	25	32
Lead	40	51	31	33	59	48	67	64	1	1	2	3
Zinc	72	74	46	49	26	25	50	47	2	1	4	4
TOTAL	74	58	47	39	18	20	30	23	8	22	28	33

Source: UNCTAD secretariat calculations based on OECD, *Statistics of Foreign Trade*, Series C, 1965 and 1975 (Paris).

5. The situation by commodity shows some variation by stage of processing, with several commodities, such as coffee, rubber, manganese and tobacco, having over 90 per cent of the imports from developing countries in raw form, and a few like cotton, jute, leather and pulp and paper having under 20 per cent in the raw form. Only one third of the commodity groups had a share of semi-processed and processed forms exceeding 50 per cent. The relatively small share of developing countries in processed form imports into OECD countries compared with their share in total imports is especially marked in the cases of rubber, sisal, iron, manganese and wool. Only for meat, groundnuts and leather were the percentage shares of raw form products in the commodity groups imports lower for imports of developing countries than for total imports.

6. For commodities which are only produced in developing countries, such as tropical foods, jute and sisal, the appearance of exports, mostly in processed forms, from other suppliers probably reflects the import of raw form materials for re-export after processing in developed market-economy countries. This leads to a situation where a good deal of the value added in processing such products as coffee, cocoa, jute or sisal does not accrue to the primary producers (developing countries), even though they have a monopoly in raw form supplies. The impact of this on export earnings is especially marked when the market share of developing countries in processed forms is low and that for raw forms is high (cocoa and sisal).

7. Thus, the over-all picture is one not only of a relatively high concentration on raw form products in the export of commodities by developing countries, but also of a much greater concentration by them on the raw form as compared with other suppliers of the same product groups.

B. Changes in the structure of exports of primary commodities from developing countries to developed market-economy countries

8. While section A above illustrated the existing low degrees of processing of commodities before export, it is the changes in this structure over time which will indicate whether the situation has been improving and, if so, by how much. The same commodity groups in OECD trade data for 1965 and 1975 are used in this analysis, and the results are summarized in tables 1, 2 and 3.

9. As can be seen from table 1, progress was made over the period 1965-1975 towards more highly processed forms of exports. Thus, raw form commodities, which represented 74 per cent of developing countries' exports in 1965, accounted for only 58 per cent in 1975. The increase in the

exports of processed forms came mainly from improvements in the final stage of processing, the share of which rose from 8 per cent in 1965 (with a value of $1,248 million) to 22 per cent in 1975 (with a value of $9,113 million).[4] This improvement was, however, highly concentrated in a few commodities, over half of it being attributable to cotton clothing ($4.5 billion) and leather goods ($1.2 billion). At the semi-processed stage there was generally a slight improvement over the period, but large increases were recorded for refined sugar ($1.7 billion), wood, simply worked ($785 million) and unwrought copper ($749 million).

10. The move towards exports of more semi-processed and processed forms was recorded for all commodity groups except copper,[5] manganese, fish, lead and zinc; and in 15 out of the 27 product groups, the increase in the share of both processed forms together was over 10 per cent. For three product groups—aluminium, cotton and palm kernels—the share improved by over 40 per cent.

[4] This probably overstates the increase in foreign-exchange earnings from processing because, on average, import content tends to be higher in semi-processed and processed products.

[5] Even though the value of semi-processed copper exports showed a large increase, that of raw form copper grew proportionately more.

11. The over-all increase in the value of exports from developing countries to OECD was $27.7 billion (see table 2). Of this, $13.9 billion, or 50 per cent, was attributable to semi-processed and processed forms of exported commodities. However, within this $13.9 billion, two thirds was accounted for by only four product groups (sugar, cotton, wood and leather). At the raw form level, the largest increases in value were in coffee, sugar, iron ore, fish and fruit. The changes in value of imports were very uneven over commodities, though only two, jute and wool, showed net declines. Most of the commodities which had relatively large increases in the value of semi-processed or processed forms of exports also experienced significant vertical integration.

12. Another way of evaluating the changes in trade patterns over the period 1965-1975 is to examine the shifts in the developing country market shares in total OECD imports by stage of processing (see table 3). The market share of developing countries for raw form items declined from 55 per cent in 1965 to 47 per cent in 1975, whereas the market share of fully processed goods increased from 13 per cent to 21 per cent, and that for semi-processed goods rose from 21 to 23 per cent. But these over-all figures hide significant variations by commodity group. In evaluating these changing shares, it is important to notice whether losses at the raw form stage (which occurred in all but six product groups) were compensated for by gains at the other two stages. A positive over-all change in market share for a

TABLE 2

Value of OECD imports from developing countries, by stage of processing, 1975, and changes in value, 1965-1975

(Millions of dollars)

	Value 1975				*Change in value 1965-1975*			
Product group	*Raw form*	*Semi-processed*	*Processed*	*Total*	*Raw form*	*Semi-processed*	*Processed*	*Total*
Coffee	4 097		199	4 296	1 982		192	2 174
Cocoa	1 205	321	19	1545	847	281	19	1 147
Sugar	3 321	1 731	24	5 076	2 397	1 715	22	4 134
Rubber	1 143		101	1 244	462		95	557
Cotton	1 145	745	4 865	6 755	302	552	4 479	5 333
Jute	54	190	62	306	−100	−28	35	−93
Sisal/henequen	132		71	203	24		49	73
Copper	509	1 937	27	2 473	367	749	−29	1 087
Tin	166	640	1	807	20	339	1	360
Meat	587		273	860	119		128	247
Groundnuts	234		218	452	32		158	190
Copra	250		270	520	26		194	220
Palm kernels	60		110	170	−42		99	57
Wood	1 426	1 073	205	2 704	923	785	200	1 908
Iron	2 714	601	7	3 322	1 649	524	7	2 180
Phosphates	1 040	47	134	1 221	857	39	124	1 020
Manganese	248		15	263	98		4	102
Aluminium	423	749	22	1 194	187	698	18	903
Fish	1 594		268	1 862	1 385		205	1 590
Fruit	2 095		483	2 578	1 047		316	1 363
Vegetables	858		329	1 187	587		251	838
Tobacco	793		44	837	495		30	525
Leather	216	369	1 252	1 837	56	272	1 181	1 509
Pulp and paper	9	88	92	189	2	71	81	154
Wool	89	9	16	114	−74	8	9	−57
Lead	69	65	2	136	18	−9	1	10
Zinc	245	82	4	331	150	48	0	198
TOTAL	24 722	8 647	9 113	42 482	13 816	6 044	7 869	27 729

Source: UNCTAD calculations based on OECD, *Statistics of Foreign Trade*, Series C, 1965 and 1975 (Paris).

TABLE 3

Changes in the market shares [a] of commodity imports by OECD countries from developing countries, by stage of processing, 1965-1975

(Percentage)

Product group	*Market share of raw form products* 1965	1975	Percentage point change	*Market share of semi-processed products* 1965	1975	Percentage point change	*Market share of processed products* 1965	1975	Percentage point change	Percentage point change in total market share
Coffee	98	95	−3				17	64	47	−4
Cocoa	97	95	−2	36	52	16	1	3	2	−6
Sugar	91	80	−11	12	57	45	2	5	3	−10
Rubber	98	97	−1				1	3	2	−32
Cotton	63	52	−11	24	25	1	23	40	17	2
Jute	94	88	−6	87	86	−1	52	58	6	−7
Sisal/henequen	96	96	0				23	22	−1	−18
Copper	65	43	−22	56	54	−2	12	2	−10	−8
Tin	94	90	−4	70	76	6	0	7	7	2
Meat	24	9	−15				28	20	−8	−14
Groundnuts	82	53	−29				81	73	−8	−21
Copra	94	87	−7				72	79	7	−8
Palm kernels	97	99	2				40	83	43	3
Wood	61	45	−16	13	21	8	2	21	19	5
Iron	55	48	−7	3	6	3	0	1	1	−4
Phosphates	65	62	−3	10	24	14	15	58	43	11
Manganese	76	50	−26				12	4	−8	−24
Aluminium	88	64	−24	5	20	15	2	2	0	1
Fish	23	39	16				17	27	10	16
Fruit	47	39	−8				30	29	−1	−7
Vegetables	23	25	2				27	24	−3	1
Tobacco	34	37	3				11	6	−5	−2
Leather	27	20	−7	25	31	6	10	25	15	6
Pulp and paper	1	2	1	1	2	1	0	1	1	1
Wool	12	8	−4	0	2	2	1	2	1	−3
Lead	41	33	−8	28	16	−12	18	10	−8	−11
Zinc	45	29	−16	14	10	−4	16	5	−11	−9
TOTAL	55	47	−8	21	23	2	13	21	8	−4

Source: UNCTAD calculations based on OECD, *Statistics of Foreign Trade*, Series C, 1965 and 1975 (Paris).

[a] The market share of developing countries refers to the percentage of OECD imports originating in developing countries.

commodity thus indicates that developing countries are doing better than other suppliers, who must of necessity suffer an over-all loss in share. A negative over-all change will indicate the reverse.

13. For seven product groups (copper, meat, groundnuts, manganese, fruit, lead and zinc) the market shares fell at all stages, indicating the declining role of developing countries in the supply of these products irrespective of the form of processing. For sisal, vegetables and tobacco, there were gains at the raw form stage and losses at the processed stages, with over-all losses recorded in market shares. This implies a further concentration of developing countries as raw-material suppliers in these product groups.

14. Only three commodity groups, palm kernels, fish, and pulp and paper, had increases in market shares at all stages, showing an over-all improvement of the position of developing countries. Among the rest, the only product groups for which the gain in the market share for processed forms more than compensated for the loss in raw form were cotton, tin, wood, phosphates, aluminium and leather, all of which also experienced significant improvements in the proportion of processed forms of export.

15. From the above developments some conclusions can be drawn. First, though vertical diversification occurred in most groups of products, the largest shifts were exhibited by the few of them in which the largest increases in trade were also concentrated. Despite this general trend, however, developing countries' exports of iron, phosphates, manganese and zinc and a number of agricultural products such as coffee, cocoa, rubber and tobacco continued to reflect a heavy concentration on raw form products, the relative importance of which in some cases even increased. Secondly, the growth rates of developing countries' exports of product groups which have benefited most from vertical diversification were accompanied by growth in market shares. This suggests that developing countries can compete in developed market-economy countries' markets at a higher level of processed product, especially when they are trading with a sufficiently large volume of such products. However, this effect has so far been limited to relatively few product groups. Thirdly, the concentration of trade gains from vertical diversification in a few product groups

has been accompanied by a concentration of beneficiary countries.[6]

16. The above picture of developing countries' trade with OECD as a whole for the 27 product groups considered also conceals wide differences from one developed market to another. These may be explained by the relative importance of individual markets, but also by differences in the escalation of tariff protection against imports from developing countries and in the structure of transnational corporations as between countries. Trade data for the same commodity groups have been used to show the trade flows between developing countries and the major developed importing countries: the United States of America, Japan and the States members of the EEC (see table 4). In 1975 these three markets together accounted for 88 per cent of the total OECD imports of the commodities considered from developing countries.

17. The composition of imports from developing countries by the three markets examined registered a shift from raw form products to semi-processed and processed products over the period considered. The relative importance of imports at the raw form stage of processing declined most in the United States, from 68 per cent in 1965 to 45 per cent in 1975. In both years, the share of semi-processed and processed imports into the United States from developing countries was higher than the comparable figure for OECD as a whole. Raw form products continued to dominate imports into Japan and represented in both years over 80 per cent of that country's imports from developing countries. This is a very high percentage when compared to the shares in the other two major markets. It should also be noted that Japan represents a small but growing market for developing countries—it was the only one of the three which increased its share in total OECD imports from developing countries. Thus the high proportion of raw form products in this market is of importance. The structure of EEC imports showed a slight movement from raw form

[6] Supporting evidence is provided in a statistical note by the UNCTAD secretariat (UNCTAD/ST/MD/18). The study shows that while total exports of manufactures from developing countries and territories increased in current value from $6.9 billion in 1970 to $27.9 billion in 1976, 63 per cent of this increment was contributed by a handful of suppliers, namely, the Republic of Korea, Hong Kong, Mexico, Brazil and Singapore.

TABLE 4

Imports of 27 selected product groups from developing countries into major developed market-economy country markets, and developing countries' market shares in total imports of the product groups considered, 1965 and 1975

(Value in millions of dollars)

	Imports from developing countries				*Developing countries' market shares*	
	1965		*1975*		*1965*	*1975*
Processing stage	*Value*	*Percentage*	*Value*	*Percentage*	*Percentage*	*Percentage*
			United States of America			
Raw form commodities	2 659	68.0	5 050	45.1	69.7	74.1
Semi-processed products	791	20.2	3 029	27.1	21.9	36.3
Processed products	463	11.8	3 117	27.8	27.6	43.1
Total for the 27 product groups considered	3 913	100	11 196	100	43.0	50.0
Share in total OECD contries' imports from developing countries (percentages)	26.5		26.4			
			Japan			
Raw form commodities	1 539	88.1	6 733	84.0	67.1	55.8
Semi-processed products	192	11.0	712	8.9	40.0	53.9
Processed products	16	0.9	569	6.1	1.6	10.3
Total for the 27 product groups considered	1 747	100	8 014	100	60.8	42.4
Share in total OECD contries' imports from developing countries (percentages)	11.8		18.9	18.9		
			EEC			
Raw form commodities	4 710	69.5	11 590	61.4	49.1	45.5
Semi-processed products	1 356	20.0	3 690	19.6	22.0	14.4
Processed products	707	10.5	3 591	19.0	11.2	19.3
Total for the 27 product groups considered	6 773	100	18 871	100	30.7	27.1
Share in total OECD contries' imports from developing countries (percentages)	45.9		44.4			

Source: UNCTAD secretariat calculations based on OECD, *Statistics of Foreign Trade*, Series C, 1965 and 1975 (Paris).

products to, mainly, fully processed ones, but raw forms still accounted for over 60 per cent of total imports by the EEC countries from developing countries.

18. Improvements in developing countries' market shares for processed goods were registered in the United States and Japan, and this share remained constant in EEC. However, in EEC and Japan there were declines in over-all market shares due to declines in the market share of raw form products. Thus, as a group, developing countries are becoming less important suppliers of commodities in all forms in these two markets. In EEC, they now supply only 27 per cent of the market, despite EEC preferential schemes for its associated developing countries. The decline in market share in Japan was quite large (18 percentage points) despite the rapid growth in Japanese imports from developing countries. However, there was significant improvement in the market share for semi-processed products, of which developing countries now supply over half. For fully processed products, the developing countries' market share in Japan is only about half of their market share in EEC and one quarter of their market share in the United States.

19. For the United States, the market shares at each level and over-all showed significant increases, and imports from developing countries now account for one half of United States imports of the products examined. The shares for semi-processed and processed forms in this market were much higher than corresponding shares in the other two markets, showing that developing countries have been doing relatively better in the United States.

C. The changing structure of trade in primary commodities among developing countries

20. In order to assess changes in the composition of trade among developing countries for the 27 product groups considered, foreign trade data have been computed for selected developing countries and territories in the same form as those presented for all OECD countries (see table 5). Total imports of these developing countries and territories amounted to $22.2 billion in 1976 and the share of intra-trade in this total was $6.7 billion, or 30 per cent, a figure comparable to the developing countries' share in total OECD imports (32 per cent). However, there has been practically no change in this total market share over the period 1970-1976 and developing countries still only supply each other with one third of their requirements of commodities in all forms.

21. The composition of this intra-trade according to the degree of processing and its changes over the period reviewed (1970-1976) showed the same general trends as were observed for trade with developed market-economy countries. While there was a substantial shift towards more processed forms, trade among the developing countries and territories considered still reflects as predominance of raw form products (42 per cent in 1976). The percentage of products at intermediate stages of processing improved from 35 per cent in 1970 to 41 per cent in 1975, while that for fully processed products only increased from 13 per cent in 1970 to 17 per cent in 1976.

22. In terms of market shares, intra-trade contributed 54 per cent to imports of primary products by the developing countries and territories reviewed, and 23 per cent to their total imports of semi-processed and processed products. This last percentage is comparable to the market share of developing countries in the imports of the same products by OECD countries. Thus these developing countries and territories did no better in their intra-trade in processed commodities than they did in exporting such products to developed market-economy countries.

D. The scope for further processing in developing countries

23. In describing the current situation with regard to the export by developing countries of primary products in semi-processed and processed form and the changes over the past decade, the above sections show that the share of such products is small and that it has generally increased over time, though not at a very fast rate except for a few product groups. It is perhaps relevant at this point to estimate the impact of further increasing this share on the gross foreign-exchange earnings of developing countries.

24. One way of estimating the impact of increasing local processing is to make a comparison between the gross value added that is generated through existing local processing and the total gross value added which would have been obtained had the whole commodity production been semi-processed before export. In this context, the World Bank has made some estimates for individual minerals exported by developing countries. The results show that in 1970 developing countries obtained less than one third of the total gross value added which they could have generated locally had they processed their minerals and metals up to the metal ingot stage before export. This percentage remained practically constant between 1950 and 1970.[7] According to another estimate, if the entire current mineral output of developing countries were to be processed up to the metal bar stage, then the value of their aggregate mineral output could be as much as $10 billion to $12 billion a year higher.[8]

25. Calculations (for a selected list of commodities) made using a methodology similar to that in the World Bank study show the order of magnitude of additional gross export earnings available to developing countries through increased local processing up to the semi-processed stage. While the results given in table 6 are quite impressive, they should be interpreted with caution. They show only the potential scope over time for gross gains from processing if all the processing stages listed were undertaken exclusively in developing countries for commodities produced and exported by them.

26. The results show that local semi-processing before export of the 10 listed commodities up to the stages considered could provide the developing countries concerned with gross additional export earnings of about $27 billion a year on the basis of 1975 trade figures. An equitable sharing of the industrial activities concerned would mean substantial gains to developing countries, particularly when it is considered that the listed commodities did not account in 1975 for more than one third

[7] See R. Bosson and B. Varon, *The Mining Industry and the Developing Countries*, a World Bank research publication (Washington, D.C., Oxford University Press, 1977).

[8] See B. Varon, "Enough of everything for everyone, forever", *Finance and Development* (Washington, D.C., vol. 12, No. 3 (September 1975), p. 20. This estimate was made on the basis of 1970 data.

TABLE 5

Structure of imports into selected developing countries and territories [a] of selected products in raw and processed form from other developing countries, 1970 and 1976

	1970					1976				
	Imports from other developing countries		*Total imports*		*Market share of developing countries (Percentage)*	*Imports from other developing countries*		*Total imports*		*Market share of developing countries (Percentage)*
	Millions of dollars	*Percentage*	*Millions of dollars*	*Percentage*		*Millions of dollars*	*Percentage*	*Millions of dollars*	*Percentage*	
Raw form products	1 018.3	51.7	1 771.2	26.1	57.5	2 798.7	41.8	5 219.1	23.5	53.6
Semi-processed products .	688.0	34.9	2 780.4	41.0	24.7	2 764.8	41.3	9 878.8	44.5	27.9
Processed products	263.9	13.4	2 224.3	32.9	11.9	1 125.2	16.8	7 116.6	32.0	15.8
TOTAL	1 970.2	100	6 775.9	100	29.1	6 688.7	100	22 214.6	100	30.1

Source: UNCTAD secretariat calculations.

[a] Argentina, Brazil, Colombia, Egypt, Ethiopia, Hong Kong, India, Indonesia, Iran, Ivory Coast, Malaysia, Mexico, Morocco, Nigeria, Pakistan, Philippines, Republic of Korea, Saudi Arabia, Senegal, Singapore, Sri Lanka, Sudan, Tunisia, Uganda, Venezuela.

TABLE 6

Additional gross foreign-exchange earnings of developing countries through increased local processing of selected commodities, 1975

(Millions of dollars)

Primary commodity		*First processing stage*		*Second processing stage*			
	Value of exports by developing countries	*Product obtained*	*Additional gross earnings*	*Product obtained*	*Additional gross earnings*	*Total additional gross earnings*	*Ratio of additional gross earnings to value of exports of primary commodities*
Copper (ore, blister and refined)	2 865	Refined copper	230	Rods, wire, tubes sheets	970	1 200	0.42
Bauxite, alumina, aluminium	1 300	Aluminium ingot	4 400[a]	Semi-manufactures (rolling and drawing)	5 800	10 200	7.85
Phosphate	1 480[b]	Superphosphates, phosphoric acids	3 800	–	–	3 800	2.56
Natural rubber	1 525	Sheet, plates, tubes	1 300	Rubber tyres	2 000	3 300	2.16
Cotton	2 091	Grey cotton yarn in bulk	1 300	Woven finished cotton fabrics	2 600	3 900	1.86
Jute	600[b]	Jute fabrics	80	–	–	80	0.13
Hides and skins	480	Finished leather	800	–	–	800	1.67
Non-coniferous wood .	2 045	Plywood, veneer sheets, etc.	3 400	–	–	3 400	1.66
Cocoa	1 605	Cocoa butter and powder	340	–	–	340	0.21
Coffee	3 936	Coffee extracts and soluble coffee	170	–	–	170	0.04
TOTAL	17 927	–	15 820	–	11 370	27 190	1.52

Source: UNCTAD secretariat estimates.

[a] Energy consumption would account for about 40 per cent of these additional gross export earnings if valued at world export prices of oil equivalent energy.

[b] Includes value of semi-processed products.

of the value of developing countries' exports of commodities, excluding fuel.

27. There is considerable variation in the results by commodity. The ratio of additional gross earnings to the current value of exports is very low for copper, jute—partially owing to a high degree of processing included in the primary form considered—and cocoa and coffee—owing to low value added involved in local processing. For the remainder, however, this ratio is well over one and implies significant gains from additional local processing.

E. Concluding remarks

28. From the discussion in this chapter, six main conclusions emerge:

(*a*) That in respect of many commodities there is only a low degree of processing before export in developing countries;

(*b*) That commodity exports from developing countries contain, in general, a lower proportion of semi-processed or processed products than those from other suppliers of the OECD markets;

(*c*) That, however, there have been improvements both in the proportion of semi-processed and processed forms in the commodity exports of developing countries and in the market shares of the developing countries in the OECD imports of these processed products over the past decade, though these changes are heavily concentrated in a few product groups and a few developing countries;

(*d*) That the variations between major markets show that developing countries are doing relatively better in the United States market, especially in semi-processed and processed commodity products, than in other OECD countries; that their exports to the most dynamic market (Japan) are highly concentrated on raw form products; and that developing countries are becoming even less important suppliers of the EEC, though they have just maintainted their market share of semi-processed and processed commodity imports;

(*e*) That the structure of and changes in the trade in commodities among developing countries show similar patterns;

(*f*) That there is considerable scope in developing countries for furthering commodity processing before export, and that such an increase could significantly add to their foreign-exchange earnings.

CHAPTER II

Barriers to the expansion of primary commodity processing in developing countries

29. The expansion of primary commodity processing in developing countries depends on several important factors, such as the economic policies adopted by developing countries and the degree of co-operation among developing countries themselves, and also on concerted action between developing and developed countries. From the point of view of the economic policy of developing countries and co-operation among them, this problem is linked with their industrialization process and includes the improvement of trade among developing countries, the co-ordination of investments and marketing, and in certain cases the restriction of exports of certain commodities in raw form and the establishment of incentives for further processing. On the other hand, co-operation between developing and developed countries, which is the subject of this paper, is essentially concerned with overcoming obstacles to local processing—in particular, barriers to entry—and with facilitating the financing of investments in processing industries and access to technology and information. In this chapter, some of the barriers to the expansion of processing are examined and possible areas for international co-operation in this field are suggested.

30. The first group of barriers are those raised by Governments of developed market-economy countries and involve tariff and non-tariff measures designed primarily to protect their domestic producers from efficient external competition. The barriers of the second type originate from industrial and market structures and from private trade practices. They involve a wide range of constraints and restrictive business practices which, in varying degrees, impede the entry of newcomers.

A. Barriers raised by Governments

31. Tariff protection in most developed market-economy countries against imports from third countries, particularly developing countries, has been increasingly complemented by specific devices of a non-tariff character designed to insulate domestic producers more effectively from potential external competition. To give an indication of the magnitude of these barriers, it has been estimated that if the OECD countries were completely to dismantle their trade barriers against the manufactured goods from developing countries, the latter could, by 1985, earn $24 billion per year beyond the amounts projected. According to this estimate, the partial relaxation of non-tariff barriers alone by the developed market-economy countries could add $6 billion per year to the export earnings of developing countries.[9]

1. *Tariff barriers*

(a) *Nominal protection and tariff escalation*

32. The adverse effects of most tariff structures of developed market-economy countries on local processing in developing countries are threefold. First, many items of real or potential export interest to developing countries still face relatively high tariffs when imported into developed market-economy countries. This problem pertains to the general level of nominal tariff protection which erodes the competitive advantage of imported goods. Besides, since tariff cuts subsequent to trade negotiations, e.g. the Kennedy Round, were granted on items mainly traded among developed market-economy countries, tariffs which apply to exports of developing countries became in general

[9] See the address to the Boards of Governors of IBRD, IFC and IDA by Robert S. McNamara, President of the World Bank, 26 September 1977, in *1977 Annual Meetings of the Boards of Governors, Summary Proceedings* (Washington, D.C., September 1977), pp. 18-19.

relatively much higher—by one half—than those charged on exports of developed market-economy countries.[10]

33. Secondly, when considering the processing chain of a given product of export interest to developing countries, it appears that one common feature of all tariff schedules of developed market-economy countries is that rates of tariff protection tend to increase with the degree of processing. Thus, a raw material not produced in a given developed market-economy country may be admitted duty free, while moderate rates are imposed on semi-processed forms and progressively higher rates on fully processed forms. There are many examples of this in table 7, such as vegetable oils, fibres and minerals in the EEC market.

34. Thirdly, nominal rates do not indicate the full extent of tariff protection afforded to processing activities in developed market-economy countries. The incidence of tariff escalation inherent in the concept of effective tariff protection is more relevant.[11] The rates of effective protection, as can be seen in table 7, are often several times higher than the nominal rates and seem sometimes to reach extremely high levels—for instance, those applicable to cocoa products and vegetable oils in EEC.

35. They show more clearly than nominal ones the discrimination in the tariff schemes against semi-processed and processed products. Every product group listed in table 7 shows this effect, most effective rates jumping from zero on raw commodities to over 10 per cent on semi-processed goods. There are only five cases in all those listed which show a decline in effective rate with increasing processing (groundnut oil, crude; jute fabrics; rolling mill products; zinc, wrought for the United States; and copper, unwrought for EEC). All the others show significant discrimination against commodities in processed form.

(b) *Special preference schemes, including the generalized system of preferences*

36. This section considers only the aspects of special preference schemes which act as barriers to increased processing in developing countries of commodities before export. Inherent in the GSP are several factors which militate against semi-processed and processed forms of commodity exports. Since the GSP neither covers all products of export interest to developing countries nor provides unlimited duty-free entry for all covered products,[12] tariff protection and tariff escalation in developed countries still persist. Such tariff protection affects in particular the agricultural products falling within CCCN chapter 1-24, because only a limited number of these products are covered by the GSP and, in most cases, only partial tariff reduction rather than duty-free entry is applied to these products. Moreover, while most of the industrial products falling within CCCN chapters 25-99 are covered by the GSP, certain products of major export interest to developing countries, such as textiles, leather, articles of leather and footwear, are excluded from the system. A number of preference-giving countries provide only partial tariff reduction rather than duty-free entry for industrial products covered by their schemes. Limitations and competitive need exclusions are also applied under three major schemes—those of EEC, Japan and the United States—which account for more than 90 per cent of total imports by OECD preference-giving countries from developing countries. The EEC and Japan limit the preferential imports of industrial products by tariff quotas, ceilings and maximum country amounts. The United States applies competitive need criteria whereby a beneficiary is denied preferential treatment with respect to a product when United States imports of such a product exceed a fixed value or 50 per cent of total United States imports of that product. The unduly stringent GSP rules of origin also act to limit the trade effects of the tariff liberalization under the system.

37. The effects of the limitations and competitive need exclusions are evident in table 8, which shows the commodities of export interest to developing countries most hindered by ceilings, etc. Indeed, it is in those areas where developing countries' exports have expanded at a relatively fast rate—textiles, leather products, wood products, unworked metals and ferro-alloys, etc.—that preferences granted are generally combined with quantitative limitations to regulate preferential imports in preference-giving countries. In other words, the potential effect of the GSP on effective production in developed market-economy countries, and therefore on the export expansion of developing countries, has been foreclosed in such a way that it is the MFN rates which still continue to serve as reference points for measuring the levels of effective protection.[13]

38. Regarding special preferences granted to the African, Caribbean and Pacific countries, under the Lomé Convention,[14] the present structure of ACP countries' exports to EEC—largely dominated by tropical raw agricultural products and minerals—and the small size of the domestic markets of most of them suggest that few of these

[10] See *The Kennedy Round: Estimated Effects on Tariff Barriers* (United Nations publication, Sales No. E.68.II.D.12).

[11] A tariff on a processed good acts as an incentive to the domestic processing of that good, whereas a tariff on the inputs to the processing activity acts as a tax on the location of that activity in the importing country. The net effect of these opposing influences built into any tariff structure is incorporated into the concept of effective protection afforded by the tariff structure to the returns from the domestic factors of production. Thus, the higher the tariff on the final product, the cost of inputs and the share of capital, the wider should be the difference in labour costs for developing countries to remain competitive. As has been pointed out, the effective protection is significantly and positively correlated with the comparative advantages (labour intensity) of developing countries, thus indicating that the highest trade barriers in developed market-economy countries are to be found precisely in the industries where developing countries could most effectively utilize their labour resources and manage their exports. (See B. A. Balassa, "The structure of protection in the industrial countries and its effects on the exports of processed goods from developing countries", IBRD, Economics Department, Report No. EC-152 (*a*) 28 February 1968 (mimeographed).

[12] For details on the operation and trade effects of the generalized system of preferences, see document TD/232, reproduced in the present volume.

[13] See *Operation and effects of the generalized system of preferences* (United Nations publication, Sales No. E.78.II.D.2), document TD/B/C.5/37, para. 27.

[14] Convention between the European Economic Community and 46 African, Caribbean and Pacific States, signed at Lomé, Togo, on 28 February 1975 (*Official Journal of the European Communities*, vol. 19, No. L 25, 30 January 1976). Stabex is the code name given to the system for the stabilization of export receipts as applied under the Convention.

TABLE 7

Structure of the tariff protection — nominal and effective — in developed market-economy countries on selected primary and processed goods imported from developing countries

(Post-Kennedy Round *ad valorem* rates or equivalent)
(Percentages)

	SITC heading by stage of processing	*United States of America*		*EEC*		*Japan*	
		Nominal	*Effective*	*Nominal*	*Effective*	*Nominal*	*Effective*
Meat							
011	Fresh and frozen	4.6	4.6	17.8	17.8	6.2	6.2
013	Meat preparations	4.7	5.6	19.5	44.3	16.4	47.3
Cocoa							
072.1	Cocoa beans	0	0	3.2	3.2	3.0	3.0
072.2, 072.3	Cocoa powder, butter	1.6	11.6	18.2	126.6	12.2	98.3
073	Chocolate	4.8	1.3	18.0	19.3	35.0	68.6
Leather							
211	Hides and skins	1.1	1.1	0	0	0	0
611	Leather	4.7	12.0	4.8	12.3	11.6	34.7
612, 831	(*a*) Leather goods other than shoes	7.7	11.4	7.3	10.4	11.8	15.0
851	(*b*) Shoes	16.6	25.3	11.9	19.3	22.9	36.5
Groundnuts							
221.1	Groundnuts	25.7	25.7	0	0	20.0	20.0
ex 421.4	Groundnut oil, crude	24.1	−13.8	7.5	92.5	20.3	27.5
ex 421.4	Groundnut oil, refined	30.0	30.0	15.0	179.7	27.0	27.0
Copra							
221.2	Copra	0	0	0	0	0	0
ex 422.3	Coconut oil, crude	5.5	47.2	10.0	66.4	10.0	65.4
ex 422.3	Coconut oil, refined	30.0	30.0	15.0	186.3	10.0	10.0
Palm kernels							
221.3	Palm kernels	0	0	0	0	0	0
ex 422.4	Palm kernel oil, crude	3.2	37.5	8.0	97.2	6.6	80.0
ex 422.4	Palm kernel oil, refined	2.4	2.4	15.0	186.3	8.0	8.0
Palm oil							
ex 422.2	Palm oil, crude	0	0	9.9	9.9	8.0	8.0
ex 422.2	Palm oil, refined	0	0	14.0	180.0	8.0	8.0
Rubber							
231.1	Natural rubber	0	0	0	0	0	0
629	Rubber products	4.6	6.6	7.9	16.3	6.4	10.3
Wood							
242.2	Wood in the rough	0	0	1.0	1.1	2.3	2.3
243	(*a*) Wood simply worked	0.3	0	1.6	4.0	2.9	8.5
631.2	(*b*) Plywood	8.5	13.8	11.3	19.6	14.0	25.4
632	Wood manufactures	6.7	13.6	8.7	16.3	11.5	23.2
Wool							
262.1	Wool, raw	9.7	9.7	0	0	0	0
651.2	Wool yarn	20.7	49.5	5.7	17.5	5.0	14.7
653.2	Wool fabrics, woven	20.7	60.9	16.0	38.1	10.0	21.3
ex 841.1 (2)	Wool clothing	16.6	2.4	15.4	19.2	15.4	26.7

TABLE 7 (*continued*)

Structure of the tariff protection — nominal and effective — in developed market-economy countries on selected primary and processed goods imported from developing countries

(Post-Kennedy Round *ad valorem* rates or equivalent)
(Percentages)

	SITC heading by stage of processing	*United States of America*		*EEC*		*Japan*	
		Nominal	*Effective*	*Nominal*	*Effective*	*Nominal*	*Effective*
Cotton							
263.1	Cotton, raw	6.2	6.2	0	0	0	0
651.3	Cotton yarn and thread	10.5	25.0	10.0	32.9	2.8	6.8
652	Cotton fabric, woven	13.8	24.6	12.0	19.1	7.9	17.8
ex 841.1(2)	Cotton clothing	20.0	35.4	14.0	20.8	14.7	27.5
841.4	Cotton clothing accessories, knitted	17.9	35.2	12.1	27.6	19.5	47.1
Jute							
264	Jute, raw	0	0	0	0	0	0
653.4	Jute fabric, woven	0	-0.6	19.6	53.3	20.0	54.4
656.1	Jute sacks and bags	3.6	10.7	15.5	14.0	12.5	2.7
Sisal, henequen							
265.4	Sisal, henequen	0	0	0	0	0	0
655.6	Cordage	3.6	10.3	10.3	30.6	9.6	28.1
Iron							
281.3	Iron ore	0	0	0	0	0	0
671	Pig iron, ferro-alloys	0.7	0	4.0	3.5	1.9	2.9
672	Steel ingots	6.3	62.2	4.0	1.1	6.4	16.6
673, 676	Rolling mill products	3.5	-4.8	5.5	11.5	8.9	20.5
677	Other steel products	4.0	6.3	7.5	19.5	7.8	8.6
Copper							
283.1	Copper ore, concentrates	0.3	0	0	0	0	0
682.1	Copper, unwrought	2.3	11.2	0	-5.6	7.0	43.1
682.2	Copper, wrought	4.2	5.4	8.0	10.5	17.8	34.9
Aluminium							
283.3	Bauxite	0	0	0	0	0	0
513.6	Alumina	0	0	5.6	11.1	0	0
684.1	Aluminium, unwrought	4.0	6.0	5.8	5.6	10.4	11.4
684.2	Aluminium, wrought	5.9	11.5	12.8	29.3	13.6	29.0
Lead							
283.4	Lead ore concentrates	6.0	0	0	0	0	0
685.1	Lead unwrought	8.3	42.7	7.2	33.8	6.5	29.4
685.2	Lead wrought	10.3	17.7	6.6	7.7	14.9	30.8
Zinc							
ex 283.5	Zinc ore, concentrates	12.0	0	0	0	0	0
686.1	Zinc, unwrought	6.6	2.5	5.8	13.4	6.5	14.8
686.2	Zinc, wrought	3.0	-0.3	8.3	13.0	14.9	30.8

Source: The Kennedy Round: estimated effects on tariff barriers (United Nations publication, Sales No. E.68.II.D.12), appendix table A.

TABLE 8

Selected list of products imported from GSP beneficiaries which are most hindered by ceilings, maximum amounts or other limitations in major developed market-economy countries[a]

Products	*EEC*[b]	*United States of America*[c]	*Japan*[d]
Raw hides and skins	–	–	+
Semi-manufactures of leather	+	–	+
Manufactures of leather	+	+	+
Footwear	+	+	+
Travel goods	+	+	+
Manufactured rubber	+	+	+
Rough wood, cork	–	+	+
Wood panels	+	+	+
Semi-manufactures of wood	+	+	+
Manufactured wood	+	+	+
Furniture	+	+	+
Paper, paper board	+	–	–
Paper, manufactures	–	+	–
Textile fibres, yarns, fabrics, clothing and made-up articles	+	+	+
Cotton fabrics	+	+	–
Jute yarns	–	+	–
Jute fabrics	–	+	–
Semi-manufactured steel	+	+	+
Ferro-alloys	–	–	+
Copper	–	+	+
Copper products	+	+	–
Aluminium	+	–	+
Aluminium products	+	–	+

Source: The Generalized System of Preferences and the Multilateral Trade Negotiations (United Nations publication, Sales No. E.78.II.D.6).

Note: The list of sensitive products in the EEC scheme was reduced in 1975 from 51 to 13 (except textiles and ECSC goods). In 1976, further liberalization was made to allow 18 per cent more industrial imports under the EEC scheme in that year and 43 per cent in 1977.

In Japan, the number of products subject to the most rigid control of preferential treatment (daily control) fell from 95 in 1971 to 41 in 1975.

In the United States of America, the absolute limit of $29.9 million for preferential imports from any beneficiary also rises annally in proportion with the GNP.

[a] The sign + indicates that the limitations apply to the product group shown, and the sign – that the limitations do not apply since ceilings on imports were not reached.

[b] Products for which ceiling and/or maximum amount was reached during 1976 under the GSP scheme of EEC.

[c] Industrial products ineligible for GSP treatment in 1977 when originating from specified beneficiaries because of the competitive need criteria.

[d] Products exceeding ceilings under the GSP scheme of Japan in fiscal year 1977.

countries could effectively in the near future develop a significant industrialization process so as to draw substantial trade benefits from the Lomé Convention. Another relevant point in this connexion is that under the Stabex scheme, products eligible for compensatory financing in case of shortfalls of foreign-exchange earnings are specifically identified by reference to their tariff position. At present there are 29 such products, mostly agricultural products in their raw form. However, as further local processing of a given product covered by Stabex would entail a change in its tariff position, the more processed forms of this product would thus no longer qualify for financial compensation.

(c) *Tariff protection and escalation on tropical products in relation to the multilateral trade negotiations*

39. One of the essential aims of the current round of multilateral trade negotiations within GATT is the achievement of an expansion and liberalization of world trade through, *inter alia*, a considerable reduction in tariffs. The multilateral trade negotiations have now entered their final phase, but at the time of writing, the likely results with regard to this specific issue cannot be prejudged. The reductions resulting from the negotiations in the Group on Tariffs will, however, certainly have a significant incidence on the current levels of tariff protection in the major importing developed countries and hopefully on the negative impact that tariff escalation has for the commodity exports from developing countries in more processed forms.

40. An area of these negotiations which permits an advance, albeit provisional, evaluation in the field of protectionism is that of tropical products, which were treated as a "special and priority sector" in the multilateral trade negotiations. As a result of the request/offer negotiating procedure adopted in this sector, offers on tropical products from developed market-economy countries, with the exception of the United States,[15] have now been

[15] In the case of the United States, offers have been incorporated in bilateral agreements with two developing countries, but these agreements have not yet been ratified.

implemented on a trial basis pending the over-all results of the multilateral trade negotiations. These cover 850 tariff items and roughly $3 billion of imports from countries members of the Group of 77.[16] Most offers were made on a GSP basis, largely on products which were not highly protected before the offers. On agricultural products (CCCN 1-24), with few exceptions, the average tariff applied on products not covered by offers is higher than that on items covered by offers, which suggests a tendency on the part of offering countries to continue high tariff protection on sensitive items and to offer reductions on products with tariffs already below average.

41. A comparison of simple tariff averages at different stages of processing, as shown in table 9, provides a rough picture of the global changes in levels of tariffs applied to developing countries according to stages of processing as a result of the offers on tropical products. It appears from this table that there might have been some reduction, in general,[17] in the escalation on semi-manufactured rubber and wood articles, where the decreases in tariffs were larger than the tariff reductions on the preceding stage of processing, and for vegetable oils, manufactured articles of leather, footwear and silk fabrics, where the absence of any reduction in the tariff averages on the primary stage of processing suggests that even the limited reductions in the tariffs on processed goods resulted in some marginal reduction in tariff escalation. In some other cases, however, such as prepared fish, sacks, bags and articles of twine and rope, and jute fabrics, the tariff escalation may have increased as a result of larger reductions being implemented on tariffs in the primary stage of processing than on the final stages.

42. In the case of prepared fruits and vegetables, processed coffee, processed cocoa, chocolate products, rubber articles, wood panels and furniture, the escalation indicators have moved in opposite directions and thus the direction of change in tariff escalation is not clear. On manufactured tobacco, travel goods and handbags, escalation appears not to have changed as a result of the offers.

2. *Non-tariff barriers*

43. One common characteristic of all non-tariff barriers is that they contribute to raising the level of protection afforded to domestic producers against imports or to circumventing or limiting the impact of any concessions granted in the tariff field. Thus, they contribute to distorting world trade flows to an extent which remains to be fully assessed.

44. The classification of non-tariff barriers encountered gives an indication of the wide diversity of protective devices other than tariffs that can be used. More than 30 types of non-tariff barriers have been identified within GATT and classified into five broad groups, viz, specific limitations on trade, charges on imports, standards, government interventions, and customs procedures.[18]

45. It is worthy of note that one or more non-tariff barriers often apply concurrently to the same import item, thus reinforcing their individual trade restrictive effects.

46. A measurement of the frequency of restrictions applied to groups of products has been undertaken in the UNCTAD "inventory".[19] Among the product groups subject to non-tariff barriers, the most frequently affected are, in descending order, meat and meat preparations; cocoa and cocoa products; wheat, barley, corn and rice products. From table 10 it can be seen that most of the non-tariff barriers are applied to food or agricultural materials in raw and processed forms. Only the last three items in the table are not of this type, two of which are forms of iron ore. Therefore, practically all non-tariff barriers identified in the inventory apply to products of export interest to developing countries.

47. Table 11 illustrates the relative frequency of import restrictions through stages of processing for the major developed market-economy countries. For most of the major markets, especially those of EEC countries, not only is the frequency of imposition of restrictions on agricultural imports fairly high, especially in comparison with those applied to manufactured goods, but increases over the stages of processing. In France, the Federal Republic of Germany, the United Kingdom and Denmark the frequency of imposition of restrictions on processed forms of agricultural products is about double that on primary forms. In the United States and Japan the frequency of imposition is relatively low but there also it increases over stages of processing. The countries which have the lowest frequency of non-tariff barriers are Canada and Australia. In general, there is a definite discrimination in the imposition of non-tariff barriers, both against agricultural products (CCCN chapters 1-24) and, more strongly, against the processed forms of these products.

3. *Growing protectionism*

48. The proliferation of protectionist measures is now a subject of serious concern to developing countries, as these measures have tended in many cases to erode substantially the already limited trade concessions gained so far. The affected sectors include, in particular, non-cotton textiles and clothing, footwear, and steel, which are among those accounting for the largest share of the increment of developing country exports in recent years. Such protectionism manifests itself by "negotiated" restrictions whether in the form of "voluntary export restraints" or in

[16] Excluding imports covered by special preferential schemes in EEC.

[17] The validity of this conclusion in the case of specific importing countries can only be determined after further analysis.

[18] These groups include:

(*a*) Specific limitations on trade: quantitative restrictions; export restraints; health and sanitary regulations; licensing; embargoes; minimum price regulations, etc.

(*b*) Charges on imports: variable levies; prior deposits; special duties on imports; internal taxes, etc.

(*c*) Standards: industrial standards; packaging; labelling and marking regulations, etc.

(*d*) Government interventions in trade: government procurement; stock trading; export subsidies; countervailing duties; trade-diverting aid, etc.

(*e*) Customs and administrative entry procedures: customs valuation; customs classification; anti-dumping duties; consular and customs formalities and requirements, and sample requirements.

[19] "Inventory of non-tariff barriers, including quantitative restrictions, applied in developed market economy countries to products of particular export interest to developing countries: report by the UNCTAD secretariat" (TD/B/C.2/115/Rev.1 and Corr.1).

TABLE 9

Tariff escalation and the tropical products offers of 10 markets[a]

Stage of processing	Product description	CCCN	Applicable tariff[b] on all requested items: Before offer	After offer	Percentage reduction in average applicable tariff	Change in escalation indicator[c] as a result of offer: Comparison of stage	Absolute difference	Relative position
1	Fish, crustaceans and molluscs	0301-3	4.3	3.5	18.6			
2	Fish, crustaceans and molluscs, prepared	1604-5	6.1	5.5	9.8	2 with 1	increased	increased
1	Vegetables, fresh or dried	0701,0704-6	13.3	8.9	33.1			
2	Vegetables, prepared	2001-2	18.8	12.4	34.0	2 with 1	reduced	no change
1	Fruit, fresh, dried	0801-9,0812	6.0	4.8	20.0			
2	Fruit, provisionally preserved	0810-11,0813	14.5	12.2	15.9	2 with 1	reduced	increased
3	Fruit, prepared	2001,2003-7	19.5	16.6	14.9	3 with 1	reduced	increased
1	Coffee	0901	10.0	6.8	32.0			
2	Processed coffee	2102 ex	13.3	9.4	29.3	2 with 1	reduced	increased
1	Cocoa beans	1801	4.2	2.6	38.1			
2	Processed cocoa	1803-5	6.7	4.3	35.8	2 with 1	reduced	no change
3	Chocolate products	1806	15.0	11.8	21.3	3 with 2	reduced	increased
1	Oil seeds and flour	1201-2	2.7	2.7	0.0			
2	Fixed vegetable oils	1507	8.5	8.1	4.7	2 with 1	reduced	reduced
1	Unmanufactured tobacco	2401	56.1	55.8	0.5			
2	Manufactured tobacco	2402	82.2	81.8	0.5	2 with 1	no change	no change
1	Natural rubber	4001	2.8	2.3	17.9			
2	Semi-manufactured rubber (unvulcanized)	4005-6	4.6	2.9	37.0	2 with 1	reduced	reduced
3	Rubber articles	4011-14,4016	7.9	6.7	15.2	3 with 2	reduced	incresased
1	Raw hides and skins	4101	1.4	0.0	100.0			
2	Semi-manufactured leather	4102-8,4110, 4302	4.2	4.2	0.0	2 with 1	increased	increased
3	Travel goods, handbags, etc.	4202	8.5	8.5	0.0	3 with 2	no change	no change
4	Manufactured articles of leather	4203-5	9.3	8.2	11.8	4 with 2	reduced	reduced
5	Footwear	6401-5	11.6	10.9	6.0	5 with 2	reduced	reduced
1	Vegetable textile yarn (excl. hemp)	5706-7	4.0	2.9	27.5			
2	Twine, rope, and articles; sacks and bags	5904-6, 6203	5.6	4.7	16.1	2 with 1	increased	increased
3	Jute fabrics	5710	9.1	8.3	8.8	3 with 1	increased	increased
1	Silk yarn, not for retail sale	5004-6	2.6	2.6	0.0			
2	Silk fabric	5009	5.6	5.3	5.4	2 with 1	reduced	reduced
1	Semi-manufactured wood	4405-14, 16, 17,19	2.6	1.8	30.8			
2	Wood panels	4415	10.8	9.2	14.8	2 with 1	reduced	increased
3	Wood articles	4420-28	6.9	4.1	40.6	3 with 1	reduced	reduced
4	Furniture	9401, 9403	8.1	6.6	18.5	4 with 1	reduced	increased

Source: UNCTAD secretariat calculations.

[a] The 10 markets are EEC, Japan, Australia, New Zealand, Canada, Austria, Switzerland, Finland, Norway and Sweden.

[b] Unweighted average of product averages in each market (unweighted, GSP or MFN rates, including duty-free tariff lines, excluding items where the *ad valorem* tariff is not available).

[c] Two indicators have been used as a rough measure of the extent of change in tariff escalation: the absolute difference in the average tariff on two successive stages of processing, and the relative position of the two averages (the tariff on the higher stage divided by that on the lower stage). A reduction in either of these two indicators would demonstrate a decrease in the disparity between rates on different stages of processing and can thus be taken as some indication of a possible reduction in tariff escalation. If both indicators have decreased, the protection afforded to higher stages of processing has most likely been reduced as a result of the tropical product offer.

TABLE 10

Summary of non-tariff barriers applied by developed market-economy countries on imports of selected processed commodities of export interest to developing countries

DL	– Discretionary licensing	XR	– Export restraint
LL	– Liberal or automatic licensing	VL	– Variable levies
L	– Licensing of an unspecified character	MP	– Minimum import price
GQ	– Global quotas	HS	– Health and sanitary regulations
BQ	– Bilateral quotas	R	– Restriction, unspecified
Q	– Quota (method unspecified)	ST	– State trading

		Non-tariff barriers imposed by		
CCCN code	*Commodity*	*EEC*[a]	*Japan*	*United States of America*
03.02	Fish, salted in brine, dried or smoked	–	DL	HS
7.04	Dried, dehydrated or evaporated vegetables	R/DL	–	–
8.11	Fruit, provisionally preserved	R/DL	DL	–
11.01	Cereal flours	VL	DL	GQ/BQ
11.02	Cereal groats and meal	VL	DL	GQ/BQ
11.06	Flour and meal of sago, of manioc, etc.	VL	–	–
11.08	Starches and inulin	VL	DL	–
15.10	Fatty acids, acid oils from refining, fatty alcohols	R/DL	–	–
16.01	Sausages	VL/DL/HS	–	–
16.02	Other prepared or preserved meat	VL/DL/HS	DL	–
16.03	Meat extracts and meat juices	HS/BQ	–	–
16.04	Prepared or preserved fish	BQ	–	–
17.04	Sugar confectionery	VL/R	–	GQ/BQ
18.06	Chocolate and other food preparations containing cocoa	VL/HS	–	BQ
20.01	Vegetables and fruits, prepared or preserved by vinegar or acetic acids	L/BQ/GQ/HS	HS	–
20.02	Other preserved vegetables	DL/L/BQ/GQ/HS	–	–
20.03	Fruit preserved by freezing, containing added sugar	VL/DL/L/GQ	–	–
20.05	Jams, fruit jellies, marmelades, fruit purée and fruit pastes	VL/DL/BQ/HS	DL	–
20.06	Fruit otherwise prepared or preserved	VL/DL/BQ/GQ/HS	DL	–
20.07	Fruit juices and vegetable juices	VL/L/DL/BQ/GQ/HS	DL	–
22.05	Wine	MP	–	–
22.07	Spirits, liqueurs and other spirituous beverages	R/DL/ST/GQ	–	–
24.02	Cigars and cigarillos	R/ST/DL/BQ/GQ	–	–
41.02	Calf leather	–	DL	–
41.03	Sheep and lamb skin leather	–	DL	–
41.04	Goat and kid skin leather	–	DL	–
53.07	Worsted yarn	DL/GQ	–	XR
53.11	Woven fabrics of sheep's or lambs' wool	DL/GQ	–	XR
55.05	Cotton yarn	AITT[b]	AITT[b]	AITT[b]
55.09	Cotton fabrics	AITT[b]	AITT[b]	AITT[b]
57.06	Jute yarn	GQ/XR	–	–
57.10	Woven fabrics of jute	XR/BQ/GQ	–	–
58.02	Other carpets and carpeting (not of cotton)	DL/BQ/Q	–	XR
60.02	Gloves, mittens, etc. (not of cotton)	Q	–	XR
60.04	Undergarments, knitted or crocheted (not of cotton)	BQ/Q	–	XR
60.05	Outergarments, knitted or crocheted (not of cotton)	LL/DL	–	XR
61.01	Men's and boys' outergarments (not of cotton)	DL/BQ/Q	–	XR
61.02	Women's, girls' and infants' outergarments (not of cotton)	LL/DL/BQ/Q	–	XR
61.03	Men's and boys' undergarments (not of cotton)	DL/BQ/Q	–	XR
64.02	Footwear with outer soles of leather	–	DL	–
69.11	Tableware of porcelain	DL/BQ/GQ/Q	–	–
73.01	Pig-iron	DL/BQ	–	–
73.02	Ferro-alloys	DL/MP[c]	–	–

Source: "Inventory of non-tariff barriers, including quantitative restrictions, applied in developed market economy countries to products of particular export interest to developing countries: report by the UNCTAD secretariat" (TD/B/C.2/115/Rev.1 and Corr.1).

[a] Restrictions imposed in whole or in part by EEC member countries.

[b] Trade limited in accordance with the Arrangement Regarding International Trade in Textiles of 1973 (GATT, *Basic Instruments and selected Documents, Twenty-first Supplement* (Sales No GATT/1974-1), p.3).

[c] On ferro-manganese since January 1978.

TABLE 11

Frequency[a] of import restrictions applied on selected products[b] of export interest to developing countries by countries maintaining restrictions

	CCCN 1-24				CCCN 25-99					
Countries	*Primary commodities*	*Semi-processed products*	*Processed products*	*Total CCCN 1-24*	*Primary commodities*	*Semi-manufactures*	*Manufactures*	*Total CCCN 25-99*	*Total CCCN 1-99*	*Number of products affected*
France	6.7	9.0	12.5	9.0	–	5.3	16.7	6.3	8.3	38
Germany Fed. Rep. of	3.9	6.9	10.8	6.7	–	6.8	–	6.8	7.3	31
Ireland	6.7	6.9	10.0	7.7	–	3.0	–	3.0	6.5	34
United Kingdom	5.6	6.9	11.7	7.7	–	2.3	–	2.3	6.3	31
Denmark	5.6	6.9	10.6	7.4	–	1.5	–	1.5	5.8	29
Italy	5.6	7.6	7.5	6.8	–	1.5	–	1.5	5.4	31
Benelux	5.0	6.9	7.5	6.3	–	2.3	–	2.3	5.3	30
Austria	10.0	9.0	7.5	9.0	–	–	–	–	6.8	23
Norway	8.9	6.3	2.5	6.3	–	–	–	–	4.8	21
Switzerland	7.8	4.9	5.8	6.3	–	–	–	–	4.8	16
Japan	3.3	4.2	5.0	4.1	–	–	–	–	3.1	18
United States	1.7	1.4	2.5	1.8	–	2.3	–	2.3	1.9	10
Finland	–	1.4	5.0	1.8	–	–	–	–	1.4	6
Canada	1.1	2.1	–	1.1	–	3.0	–	3.0	1.5	9
Sweden	–	4.9	4.2	2.7	–	–	–	–	1.0	5
Australia	1.1	–	0.8	0.7	–	–	–	–	0.5	3
SIMPLE AVERAGE	4.6	5.3	6.5	5.3	–	1.8	1.0	1.8		

Source: UNCTAD secretariat calculations.

[a] Frequency for each product group is defined as the number of restrictions in a group as a percentage of the total number possible in a group. The denominator (the number of possible restrictions) is: (number of products per stage of processing product group) × (12 types of restrictions).

[b] A total of 49 products or product groups comprising 15 primary commodities, 23 processed and semi-processed agricultural products and semi-manufactures and 11 manufactured products according to the UNCTAD classification.

the form of "orderly marketing arrangements" or by other devices fitting into the concept of "organized free trade" which, in fact, can be market-sharing arrangements in favour of aging and inefficient domestic industries at the expense of efficient external competitors, particularly the developing countries.

49. An example of this type of arrangement is the Multifibre Arrangement of 1973, which was recently extended through 1981.[20] The Arrangement is based on a system of bilateral quotas. The new quotas are even more restrictive than before and those for EEC do not only limit growth but also reduce import levels for a number of major developing suppliers, including Hong Kong and the Republic of Korea. The new arrangements also establish low "trigger levels" for further quotas which limit the scope for diversification of exports into new products.

50. Other examples include the new quantitative restrictions placed on imports of footwear in several developed market-economy countries, including the United States of America, the United Kingdom, France, Australia, Canada and Sweden. Such restrictions were already enforced in Japan and are under consideration in EEC. Also, special protective measures against the imports of steel have been introduced in EEC and the United States. These measures could pose serious difficulties for developing countries now emerging as exporters of steel.

[20] See "Arrangement Regarding International Trade in Textiles" (GATT, *Basic Instruments and Selected Documents, Twenty-first Supplement* (Sales No. GATT/1974-1), p. 3) and Protocol extending the Arrangement (*ibid., Twenty-fourth Supplement* (Sales No. GATT/1978-1), p. 5). This Arrangement is now known as the Multifibre Arrangement.

51. Among those measures of growing importance leading to the protection of the non-competitive industries, special mention ought to be made of the policy of subsidizing domestic industries in developed market-economy countries. The current account fund transfers from the national budget to private and public enterprises, expressed in percentages of GDP, varied from 2.4 per cent for the EEC countries to 0.3 per cent for the United States.[21] In 1976 these transfers amounted to $5.1 billion in the United States, $3.2 billion in Canada, $7.3 billion in Japan and $49.0 billion in EEC countries (of which France accounted for $9.4 billion, the Federal Republic of Germany for $6.8 billion and the United Kingdom for $6.1 billion).

B. Barriers arising from market structures and the operations of transnational corporations

52. In many sectors of economic activity, concentration of control through the vertical and horizontal integration of operations has created effective barriers to the entry of developing countries into international markets. Essentially, these barriers raised by private corporations originate from a proliferation of restrictive business practices, including those resulting from the control of transnational corporations over production, capital technology, and marketing and distribution channels.

[21] See R. Blackhurst, N. Marian and J. Tumlir, *Adjustment, Trade and Growth in Developed and Developing Countries*, GATT Studies in International Trade, No. 6 (Geneva, 1978 (Sales No. GATT/1978-3), appendix table I.5.

53. Restrictive business practices such as cartel arrangements[22] involve price fixing, market sharing and joint marketing and distribution, often binding subsidiaries of cartel members in developing countries. Other restrictive practices include price setting by a dominant firm in the market and differential pricing for the same product according to geographical area or the purchasing power of consumers. The use of such practices, which hinder further local processing in developing countries, may often be tolerated in developed countries as an alternative to the raising of tariffs or the imposition of quantitative restrictions on imports by Governments unwilling to directly contravene their obligations under the GATT rules. In some cases these practices violate national laws on restrictive business practices so far as domestic markets are concerned but not in regard to imports.[23]

54. The predominant role of transnational corporations in international trade and their control over the production, technology and marketing of a large number of commodities of export interest to developing countries are also sources of obstacles and restrictive business practices seriously hindering the expansion of local processing in developing countries.

55. Approximately 50 per cent of all imports into the United States in 1977 were related party transactions. Available data also indicate that 29 per cent of Swedish exports in 1975, 30 per cent of United Kingdom exports in 1973 and 59 per cent of Canadian exports in 1971 were on an intra-firm basis.[24] In 1975, United States commodity imports through related party transactions in commodities originating in developing countries were 32 per cent of total commodity imports from developing countries; the corresponding figure for bauxite was 88 per cent; for rubber (milk or latex), 80 per cent; for rubber (dry), 24 per cent; for bananas and cotton, 68 per cent; for iron ore concentrate, 17 per cent; for other iron ore, 24 per cent.[25]

56. Restrictions on the transfer of technology constitute one of the most acute obstacles faced by developing countries in furthering their industrialization based on local natural resources. In the mineral and metal industry, and to a lesser extent in agro-business, technologies and the patents and licences thereof are largely owned by transnational corporations and the conditions imposed for their transfer determine the level of barriers to entry. Financially, the cost of transferring technologies to firms in developing countries may be beyond the reach of many of them and seriously limit their competitiveness in the world market. Thus, it has been estimated that in 1968 about $1.5 billion was spent by developing countries for technology transfers and that the attainment of an annual expansion in manufacturing output of 8 per cent could lead to a roughly sixfold growth of the direct costs of transfer in 10 years, that is, to $9 billion by around 1980.[26] The main part of these royalties were intra-firm transfers (in 1976, 82 per cent of receipts from technology transfers by the United States were accounted for by United States-based transnational corporations.[27]

57. One of the most effective restrictive practices imposed on recipient countries or firms, which is directly related to the expansion of primary commodities processing, is the prohibition or limitation of the export of products manufactured on the basis of the technology supplied, including restrictions on exports to certain markets. This restriction is sometimes exercised through the requirement to seek prior approval for the supply and pricing of exports.[28]

58. Another problem arises when the technology is transferred from a transnational corporation to its subsidiary in a developing country and the country has no or very limited access to it. The benefits of the transfer are then restricted to the transnational corporation associate and are not available to other firms in the country, which are also excluded from research and development on the technology and from trying to adapt it to conditions different from those existing for transnational corporations.

59. Control of technology is further strengthened by the possession of know-how and technical expertise. Even when technology is made available to developing countries, its implementation and maintenance often require skilled manpower not always available locally. Thus, whether this know-how and technical expertise are tied to technology provided by a transnational corporation or mobilized on a world-wide basis, their high cost in both cases erodes the competitiveness of developing-country firms aiming to enter world markets.

60. The control over the disposal of inputs and outputs exercised by transnational corporations may be another obstacle that new processing plants in developing countries have to overcome. This control may take the form of irregular or short supplies, of higher prices for inputs while pegged transfer prices for outputs are maintained, or of higher prices for inputs while transfer prices for outputs are reduced. In such cases, therefore, a new competitor would have to enter at the same time into all stages of the processing chain if he wished to circumvent the adverse

[22] Cartel arrangements and abuses of dominant positions are problems more widespread and damaging to exports of developing countries than to developed countries. The adverse effects of such arrangements have been acknowledged by the OECD Committee of Experts on Restrictive Business Practices in *Export Cartels* (Paris, OECD, 1974) and *Restrictive Business Practices of Multinational Enterprises* (Paris, OECD, 1977).

[23] See "Annual report on legislative and other developments in developed and developing countries in the control of restrictive business practices, 1978, prepared by the UNCTAD secretariat" (TD/B/C.2/AC.6/15).

[24] See TD/B/C.2/197; *Transnational corporations in world development: a re-examination* (United Nations publication, Sales No. E.78.II.A.5), para. 141; *Dominant positions of market power of transnational corporations: use of the transfer pricing mechanism* (United Nations publication, Sales No. E.78.II.D.9); and document TD/229/Supp.3, reproduced in the present volume.

[25] See G. K. Helleiner, "Intrafirm trade and the developing countries: patterns, trends and data problems", paper presented to a seminar on intra-firm transactions and their impact on trade and development, sponsored by UNCTAD and the Institute of Development Studies, University of Sussex, November 1977.

[26] See *Major issues arising from the transfer of technology to developing countries* (United Nations publication, Sales No. E.75.II.D.2), para. 100.

[27] See United States of America, Department of Commerce, *Survey of Current Business*, vol. 57, No. 3 (March 1977).

[28] More than 40 restrictive practices included in transfer of technology arrangements have been identified by developing countries. See "Report of the Intergovernmental Group of Experts on a Code of Conduct on Transfer of Technology, Geneva, 5-16 May 1975" (TD/B/C.6/1), annex III.

pressures and practices of powerful firms already controlling the market.

C. Obstacles arising from scale of production and investment requirements

61. Obstacles to local processing arising from the scale of production are essentially related to insufficient supply of raw materials, small size of domestic markets and the high costs of investment. The scale factor may work against developing countries with small raw material output. In the case of minerals, this means that there must be a mining production large enough to permit the setting up of a plant with sufficient capacity to be competitive. The small size of domestic markets in many developing countries acts as a powerful impediment to local processing. When the international market is heavily concentrated, existence of a sizable domestic market could support both an import-substitution and export-oriented development policy and thus significantly reduce the scale factor constraint.

62. The volume of capital required to further the local processing of their natural resources is another main obstacle to be faced by the developing countries concerned. Economies of scale in many industries have, by raising the level of initial investment required, contributed to confining developing countries to their role of raw-material suppliers.

63. The average investment costs in minerals and metals activities—not including the investment that may be required in infrastructure—vary from $80 million for the setting up of a zinc smelting plant with an annual capacity of 50,000 tons to $1.2 billion for an aluminium plant with an annual capacity of 500,000 tons (see table 12).

TABLE 12

Average investment costs

Commodity	*Optimum capacity tons/year*	*Investment costs 1975 (millions of dollars)*
Aluminium	500 000	1 200
Copper	100 000	600
Iron-ore pellets (66 per cent Fe content)	10 000 000	800
Nickel	25 000-30 000	480
Lead	100 000	140
Zinc	50 000	80

Source: "Minerals-Salient issues: report of the Secretary-General" (E/C.7/68) (paper submitted to the fifth session of the Committee on Natural Resources, Geneva, 9-20 May 1977), annex I, table 5.

64. The magnitude of investment costs for selected agricultural products is of a lower order. A 1973 study by the Tropical Products Institute on the small-scale manufacture of soluble coffee indicates, for example, that to process 17,000 bags of coffee (spray drying) an investment of about $700,000 would be necessary. According to another study, the first stage of cocoa processing (roasting and grinding) would require, for a plant of viable size, an investment in the region of $12 million to $13 million (1972). Capital costs for cocoa butter and cocoa powder production would be, respectively, in the region of $1 million to $2 million and $2 million to $3 million.[29] A relatively small tyre plant would cost in the region of $10 million and a medium-sized tyre plant would cost more than twice this amount—$22 million. Machinery for a mill processing 20,000 to 30,000 tons of sisal costs about $4.1 million, while the total cost of the project would be just over $9 million.[30] The cost of a new jute mill is estimated to be above $11 million, including equipment costs of $4 million.[31] Capital requirements for further processing of cotton are higher, but they do not surpass the $60 to $90 million level. All these estimates need to be revised upward in view of recent world-wide inflation.

65. The magnitude of investment required could therefore be a major obstacle to the expansion of processing in developing countries, particularly of minerals. This is particularly true in the case of the smaller and lower-income developing countries where there may, nevertheless, be exploitable resources. The figures given above on investment costs should be contrasted with the amount of international financing available to developing countries for investments in increased processing. Funds available through international organizations, such as the World Bank, IDA and IFC, represent alternatives for developing countries to investments by or with foreign firms such as transnational corporations, especially in the development of industries where technology is relatively open. Tables 13 and 14 present estimates of the total amount of funds lent by these international organizations for the development of processing in developing countries. Since it is not possible to separate funds lent for industries to satisfy domestic demand from those lent for enterprises with an export orientation, nor those lent to industries processing domestic resources from those lent to ones using imported inputs, nor funds lent through the industrial development and finance sector of the World Bank for processing purposes from those lent through this source for other uses, these figures necessarily overstate the amounts lent for the purpose of increasing processing of primary commodities for export. It is nevertheless very clear that the amount of the funds lent is very small in comparison with the estimates of investment costs presented above.

66. The estimates of the World Bank and IDA representing direct project loans show that over its entire history less than $3,500 million has been lent for activities probably involving processing of commodities. Another $5,200 million has been lent through the industrial finance and development sector, some of which involved financing of processing activities. The figures for IFC, which represent loan and equity investments in private, national or joint ventures, show that only about $800 million has been disbursed in such financing in processing activities over a 20-year period. An additional problem of getting such financing as is available through IFC is that it often provides only a small part of the total necessary and the country is left to raise the rest where it can.

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[29] Study on the degree and scope for increased processing of primary commodities in developing countries, prepared for UNCTAD by the Commodities Research Unit Ltd., London; September 1975.

[30] Figures based on estimates of a leading British manufacturer of sisal processing plant.

[31] Figures based on estimates of a leading British manufacturer of jute processing machinery.

TABLE 13

Cumulative lending by the World Bank and IDA up to 30 June 1978

(Millions of dollars)

Sector	*World Bank*	*IDA*	*Total*
Agriculture	8 709.1	4 985.0	13.694.1
Crop processing and storage	443.5	368.0	811.5
Industry	3 867.8	521.9	4 389.7
Fertilizers	782.3	423.4	1 205.7
Iron and steel	1 036.5	–	1 036.5
Pulp and paper	134.2	2.0	136.2
Textiles	165.0	27.0	192.0
Mining	489.8	18.5	508.3
Small industry	225.8	32.3	258.1
Other	1 034.2	18.7	1 052.9
All other sectors[a]	27 289.3	7 821.8	35 111.1
Subtotal	39 866.2	13 328.7	53 194.9
Total of activities involving processing[b]	2 561.5	820.4	3 381.9
Share of activities involving processing (percentage)	(6.4)	(6.1)	(6.3)
Industrial development and finance	4 842.0	382.1	5 224.1
Total lending	44 708.2	13 710.8	58 419.0
Total for activities involving processing and industrial development and finance	7 403.5	1 202.5	8 606.0
Share of activities involving processing and industrial development and finance (percentage)	(16.5)	(8.8)	(14.7)

Source: World Bank, *Annual Report 1978* (Washington, D.C.).

[a] Other sectors include transportation, telecommunications, electric power, water supply and sewerage, education, population planning, tourism and urbanization.

[b] The following are included as activities probably involving processing of primary commodities: crop processing and storage, fertilizers, iron and steel, pulp and paper, and textiles.

TABLE 14

Commitments by IFC by type of enterprise, 1957-1977 and selected years

(Millions of dollars)

Industry	*1957-1977*	*1975*	*1976*	*1977*
Iron and steel	275.8	48.0	65.4	11.2
Textiles and fibres	205.3	21.2	38.5	21.0
Pulp and paper products	144.8		7.7	17.3
Food and food processing	71.4	1.2	12.7	27.6
Fertilizers	60.3	3.2		
Non-ferrous metals	38.9		20.6	
Construction	189.2	22.2	12.5	13.2
Mining	136.6	15.0	6.0	18.5
General manufacturing	106.0	24.2	25.5	23.7
Chemicals and petro-chemicals	85.2	32.3	7.0	0.3
Motor vehicles and parts	67.7		3.8	
Tourism	52.4	9.8	0.9	
Development finance corporations	191.8	26.6	44.0	40.7
Money and capital markets	33.2	8.0		18.2
Public services	31.5			15.0
Machinery	14.8			
Other	7.0			
TOTAL	1 711.9	211.7	244.6	206.7
Total for industries involving processing[a]	796.5	73.6	144.9	77.1
Share of industries involving processing (percentage)	(46.5)	(34.7)	(59.2)	(37.3)

Source: International Finance Corporation, *Annual Reports,* 1975, 1976 and 1977 (Washington, D.C.).

[a] The following are included as industries probably involving the processing of primary commodities: iron and steel, textiles, pulp and paper products, food and food processing, fertilizers and non-ferrous metals.

67. This small amount of financing, as compared with the investment costs above, particularly those for minerals, illustrates the dilemma for developing countries. Especially for relatively big ventures in basic processing activities where the technologies involved are well known, there is no international alternative for financing to being tied up with a transnational corporation. There is no international agency now providing the kind or size of financing required. If developing countries are going to compete in world markets for processed commodities outside the constraints of transnational enterprises, then they are going to need more financing through international means than is now available.

D. Other restrictive trade practices

1. *Product differentiation*

68. Marketing policies based on product differentiation involve high advertising expenditures by private companies so as to differentiate the products concerned and to raise barriers against any new potential competitors. New competitors would have, in many cases, to include in their initial investments substantial expenditures for advertising if they wish to have some chance of penetrating captive markets on any significant scale. Such a practice is particularly detrimental to processing in developing countries of products such as chocolate, sugar confectionery, soft drinks, soap, cigars or cigarettes, where capital and technological requirements are not so formidable. For such products, which lend themselves to differentiation, competition is not so much in terms of production cost and higher quality but of a capacity to bear regular and heavy advertising outlays, which often account for the largest share of retail prices.

2. *Escalation of freight rates*

69. The structure of transport costs may not serve to stimulate processing in developing countries as it appears to reinforce the nominal and effective protection of tariffs in the developed importing countries. As can be seen from tables 15 and 16, in somes cases freight rates increase with the degree of processing of a product and even exceed MFN tariffs. In addition, as was stressed in a recent study,[32] freight rates can be discriminatory against developing countries, as they appear to be higher when applied to exports of certain developing countries than to similar exports from other developing countries or from developed market-economy countries in the same geographical area (see table 16). However, product-by-product studies would be necessary to determine where the current practices are not grounded on objective cost factors and are detrimental to developing country exports and diversification efforts.

[32] See J. Yeats, "Do international transport costs increase with fabrication? Some empirical evidence", *Oxford Economic Papers*, vol. 29, No. 3 (November 1977), p. 458.

TABLE 15

Estimated *ad valorem* tariffs and transportation costs for exports to the United States of America, 1974

(Percentages)

Imported products by stage of processing	*Processing stage*				*Percentage point change*
	Primary product	*Stage I*	*Stage II*	*Final product*	
Cocoa:					
Cocoa beans; cocoa butter; powder; chocolates					
Tariff	0.0	1.6		4.8	4.8
Transport	5.0	6.5		8.1	3.1
Total	5.0	8.1		12.9	7.9
Leather:					
Hides and skins; leather, leather goods; shoes					
Tariff	1.1	4.7	7.7	14.0	12.9
Transport	3.9	4.5	6.2	9.1	5.2
Total	5.0	9.2	13.9	23.1	18.2
Rubber:					
Natural rubber; rubber goods					
Tariff	0.0	–	–	4.6	4.6
Transport	9.9	–	–	15.6	5.7
Total	9.9	–	–	20.2	10.3
Wood:					
In the rough; simply worked; plywood; manufactures					
Tariff	0.0	0.3	8.5	6.7	6.7
Transport	2.9	7.0	17.2	8.6	5.7
Total	2.9	7.3	25.7	15.3	12.4
Copper					
Copper ore; copper unwrought; copper wrought					
Tariff	0.1	2.3		4.2	4.1
Transport	3.9	2.0		2.8	–1.1
Total	4.0	4.3		7.0	3.0

Source: J. Yeats, "Do international transport costs increase with fabrication? Some empirical evidence", *Oxford Economic Papers*, vol. 29, No. 3 (November 1977), table 1.

TABLE 16

Ad valorem transportation costs[a] on selected exports from developing countries to the United States of America, by stage of processing, 1974

(Percentages)

Products and their processing chain and exporting countries	*Processing stage*		
	Primary product	*Final product*	*Percentage point change*
Meat products			
All countries	10.1	4.9	−5.2
Argentina	6.1	5.1	−1.0
Guatemala	1.5	8.6	7.1
Nicaragua	6.9	5.9	−1.9
Cocoa			
All countries	5.0	8.1	3.1
Brazil	4.8	20.1	15.3
Ghana	5.5	10.2	4.7
Dominican Republic	4.2	4.2	0.0
Leather			
All countries	3.9	9.1	5.2
Argentina	3.6	6.6	3.0
Colombia	2.6	8.5	5.9
Brazil	4.7	6.9	2.2
India	10.1	21.1	11.0
Pakistan	4.2	10.3	6.1
Rubber			
All countries	9.9	15.6	5.7
Brazil	8.4	43.2	34.8
India	10.2	35.0	24.8
Malaysia	8.9	23.1	14.2
Wood			
All countries	2.9	8.6	5.7
Brazil	13.0	26.9	13.9
Guatemala	13.2	15.2	2.0
India	16.4	32.0	15.6
Iron			
All countries	7.9	12.0	4.1
Brazil	7.5	7.4	−0.1
India	17.0	46.9	29.9
Republic of Korea	8.3	8.7	0.4

Source: J. Yeats, "Do international transport costs increase with fabrication? Some empirical evidence", *Oxford Economic Papers*, vol. 29, No. 3 (November 1977), table 2.

[a] Including insurance.

DOCUMENT TD/229/SUPP.3*

Marketing and distribution of primary commodities. Areas for further international co-operation

Report by the UNCTAD secretariat

[*Original: English*]
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CONTENTS

TABLES

Introduction

1. One of the objectives of the Integrated Programme for Commodities, established by resolution 93 (IV) of the United Nations Conference on Trade and Development, is to "improve marketing, distribution and transport systems for commodity exports of developing countries, including an increase in their participation in these activities and their earnings from them". To achieve this objective, the Programme calls for the adoption of international measures to improve the infrastructure and industrial capacity of developing countries, extending from the production of primary commodities to their processing, transport and marketing, as well as to the production of finished manufactured goods, their transport, distribution and exchange, including the establishment of financial, exchange and other institutions for the remunerative management of trade transactions.

2. Over the past few years the UNCTAD secretariat has prepared studies on the marketing and distribution systems

* Incorporating document TD/229/Supp.2/Corr.1.

for a number of commodities.[1] Studies have been completed on bananas,[2] hides, skins and leather,[3] cocoa,[4] and tobacco,[5] and a study on cotton will be published shortly. As regards cross-commodity issues, a report on speculation and price instability in commodity futures markets was prepared by a consultant.[6] Further, the question of marketing and distribution has been touched upon in various documents prepared by the secretariat for the preparatory meetings held on individual commodities in pursuance of Conference resolution 93 (IV). In particular, bauxite, hard fibres, iron ore, manganese, meat, tropical timber and vegetable oils have been examined in this context. Detailed studies, however, have not yet been undertaken on these commodities.

3. Against the background of the international measures envisaged in the Integrated Programme for Commodities, the purpose of this document is to present a progress report on the preparatory work carried out by the secretariat in the field of marketing and distribution of primary commodities. Chapter I sets forth the salient facts and features emerging from the detailed individual commodity studies mentioned above. On the basis of the available information on these commodities, as well as of less detailed and comprehensive material on the other commodities, an attempt is made to draw out the key factors contributing to the unequal division of market power between developed and developing countries. Such factors include control over resources, concentration in production, trade and marketing, alternative sources of supply, control of transport, and information. The pervasive role of transnational corporations at each stage of the production process emerges from this analysis. The examination of the key factors influencing the distribution of benefits from trade is supplemented by some empirical evidence on this matter. Chapter II reviews the recent progress made by developing countries in marketing and distribution in terms of national measures, concerted action by producers and international initiatives. In chapter III a number of areas for further international co-operation are examined, including additional preparatory work to be undertaken by the secretariat, international support for national action and for co-operation among producers, and measures in developed countries.

[1] By its resolution 78 (III), the Conference requested the secretariat to carry out comprehensive studies on marketing and distribution systems for commodities of export interest to the developing countries. It also requested the secretariat to make recommendations for remedial measures designed to expand the trade flow from the developing to the developed countries and increase the profits accruing to the developing countries, and to suggest ways and means of implementing the measures recommended.

[2] TD/B/C.1/162.

[3] TD/B/C.1/163.

[4] TD/B/C.1/164.

[5] *Marketing and distribution of tobacco* (United Nations publication, Sales No. E.78.II.D.14).

[6] "Speculation and price instability on international commodity futures markets: study prepared by Mr. W. C. Labys, Graduate Institute of International Studies, Geneva" (TD/B/C.1/171).

CHAPTER I

Major issues

A. Salient features of the marketing and distribution of primary commodities

1. *General perspective on primary commodity marketing*

4. Individual commodity markets, the main findings regarding which are presented below, differ widely in their structure, institutions and performance. The present aim is to draw out common issues around which a framework of negotiated principles for international co-operation policy in this field might be designed. The findings relate to five commodity markets (bananas; cocoa; cotton; hides, skins and leather; tobacco), in at least three of which it is not anticipated that the position of developing countries could be improved by the traditional kind of international commodity agreement. The principal common issues are developed in section B below.

5. Viewed in a general perspective, three observations may be offered. First, the factors which help to explain the disproportionately small share of the final price which developing countries receive for most of their primary commodity exports have their origin in the historical evolution of the existing economic order, the expansion of colonial empires and the spread of international capitalism. While some of the historical circumstances have more or less ceased to be relevant explanations, the subordinate position of developing countries in the marketing and distribution of their primary exports survives with but small improvements here and there. The dominant position of developed countries in this regard is now maintained through the power of transnational oligopolistic enterprise which is set firm in an inextricable combination of control over finance, technology, production, transport, markets, promotional services, information and distribution channels, in ways which have been repeatedly exposed in the now voluminous literature on this subject. An inescapable conclusion is that the development of an effective countervailing force against such concentrations of power will to a large extent depend on the actions which developing countries, and in some cases developed countries as well, can and are beginning to take at the level of their Governments. Both the resources required and the degree of co-ordinated action that must be exercised to countervail the adverse effects generated by these centres of economic power would be difficult to achieve by small, competing, national private-enterprise units.

6. Secondly, the weak bargaining power of developing countries in the marketing of their primary exports also derives from the structural characteristics of the market, particularly the prevailing situation where a multiplicity of freely competing sellers with little market staying power face a few, often collusively organized, buyers with immense resources at their disposal. Another conclusion therefore to be drawn in regard to the marketing of primary commodities is that collective action among producing countries, which could take a variety of forms, appropriate to different circumstances, would need to be developed further, strengthened and extended if the present imbalance is to be rectified and its harmful consequences on developing countries are to be effectively reversed.

7. Thirdly, it has become apparent that the power exercised by transnational corporations is not always in harmony with the policies of the Governments of developed countries themselves in regard to both their domestic objectives and their external economic and political relations with developing countries. A further conclusion which may be drawn is that there should be considerable scope for the control of transnational corporations in ways which are mutually beneficial to developing and developed countries, whether through negotiated codes of conduct for such corporations, regulation of restrictive business practices, contract norms or other agreed international co-operation policies and principles.

2. *Individual commodity markets— structure and performance*

Bananas

8. The marketing and distribution of bananas is predominantly controlled by three transnational corporations based in developed market-economy countries. These vertically-integrated enterprises enter into every stage of the process, as they frequently own plantations in developing countries, export the crop in their own ships and sell it in developed countries through their own wholesale distribution channels. The unequal bargaining power of banana growers and of the transnational corporations has influenced to a considerable degree the formation of banana prices and the relative profitability of the various stages in the production and marketing chain. A large disproportion between export prices and consumer prices was revealed in a breakdown of the retail price. In 1971, the gross returns to growers were about 12 per cent, whereas the gross margins of ripeners were 19 per cent and retail gross margins were about 32 per cent.[7] More recent evidence has shown that these margins have not changed much over the last few years.[8]

9. The market structure is characterized by monopsonistic buying in producing countries and severe competition among the three major corporations for larger shares in specific consuming markets, which are undergoing increasing concentration at the retail level by supermarket chains. Consequently, improvements in productivity have tended to result in lower prices in real terms in consuming markets, rather than in higher incomes for commodity producers. Given the very small proportion of consumer expenditure in import markets that is received by the majority of producing countries, higher export volumes resulting from international policy measures (such as improved access) would increase export receipts in a limited way.

10. There have been efforts in some producing countries to manage supply and marketing as well as provide technical assistance to the growers. For instance, the Jamaica Banana Board was designed to promote the interests of the industry, to secure more favourable arrangements for marketing and distribution, and to assist in research and development projects. In addition, the Jamaica Marketing Company acts as a marketing agent for the Banana Board. Similar organizations have been set up in other countries, such as Somalia, Ecuador and the Ivory Coast. Following the establishment of the Union of Banana Exporting Countries, the UNCTAD report emphasized the urgent need for banana exporting countries to follow a more active policy of co-operation in order to increase their participation in the production, transportation and marketing of bananas.

Cocoa

11. There are basically three types of marketing systems which operate in the cocoa producing countries. In Nigeria and Ghana, the crop is marketed solely through statutory marketing boards, which purchase the cocoa from the farmers at guaranteed prices and sell it abroad through their own selling agencies. In Togo, the Ivory Coast and the United Republic of Cameroon, the caisses de stabilisation guarantee a fixed price to the farmers and act as a fund to stabilize the price for the private exporting firms. Finally, in Brazil and most other producing countries the marketing of cocoa is handled by private trading firms or by producer co-operatives. Although the main objective of all three systems is to stabilize producer prices, research and development projects such as improvements in cocoa production, eradication of disease and improvements in infrastructure have also been organized.[9]

12. The effects of these marketing arrangements on cocoa production and exports have been mixed. It has been suggested that in keeping prices down the Marketing Boards in Ghana and Nigeria have negatively influenced the quantity of cocoa production and exports.[10] However, production has increased, partly as a result of the subsidization of insecticides and fertilizers and improved extension services and transportation systems. At the same time, it was shown that where shipments are handled by exporting monopolies (i.e. Ghana Cocoa Marketing Board and the Nigerian Produce Marketing Company), as well as where national shipping companies account for a substantial portion of total shipments, lower freight rates have been secured. There are, however, still a number of problems that producing countries experience, namely: the difficulty and expense of storing cocoa in tropical areas, the need to reduce internal transport and collection costs, and the need for foreign exchange, which forces countries to sell their crops without being able to take full advantage of price fluctuations.

13. The bulk of the cocoa exported is sold through dealers or brokers in the consuming countries, on the basis of prices set in the terminal markets, all of which are located in importing countries. Brokers work on a commission basis; in some countries they handle transportation, insurance and finance, and they often have offices, agents or representatives in the exporting and importing countries. Dealers may take physical possession of the product and hold local stocks, which are most often hedged.[11] Manufacturing enterprises in socialist countries buy about one third of their raw cocoa requirements directly from the

[7] See "The marketing and distribution system for bananas: report by the UNCTAD secretariat" (TD/B/C.1/162), paras. 23-26.

[8] FAO, "Review of the economic aspects of production, trade and distribution of bananas" (CCP: BA/WP 78/5, August 1978).

[9] See "Marketing and distribution systems for cocoa: report by the UNCTAD secretariat" (TD/B/C.1/143), paras. 26-47.

[10] *Ibid.*, para. 63.

[11] *Ibid.*, paras. 132-135.

producing countries; the rest is bought through dealers or processors.

14. The price of cocoa is marked by a high degree of both short-term and long-term instability, the former exacerbated by excessive speculation activities on terminal markets. Only in the United States is there publication of the long and short positions taken by traders inside and outside the industry,[12] thus allowing for the identification of market manipulation. Other factors which affect, often adversely, the total earnings of cocoa producers, are the lack of regular sources of information on market trends and prices, differences in freight rates applying to exports of individual countries and differences in selling methods, including sales under long-term contracts.

15. The manufacture and distribution of cocoa products are highly concentrated among a small number of large firms in the major consuming countries. This oligopolistic structure is reinforced by product differentiation, which is supported by mass advertising and efficient marketing techniques, diversification into other food and non-food activities, the use of advanced technology, and the importance of economies of scale.

Cotton

16. The marketing of raw cotton in exporting countries is controlled by three different types of bodies: statutory marketing boards, socialist State trading organizations, and national agriculture and commerce departments. Regulatory measures are common to all of them, with varying degrees of intensity relating to the traditional forces that moulded their economic systems and, more specifically, their trade objectives. However, virtually all producers are dependent upon 15 large traders in developed market-economy countries who control 85-90 per cent of internationally traded cotton. Most of these firms hold a dominant position in the trade of other commodities as well and, due to their backward and forward linkages, are able to exert strong bargaining power in their dealings with cotton producers.

17. In the field of economic and trading intelligence, these firms possess highly effective networks which lend speed and flexibility to their operations in a way unmatched by developing exporting countries. Most of the large traders are major hedgers and speculators on the New York Cotton Exchange, either having their own seats or operating through their brokers. Recently, allegations of price manipulation and actions resulting in the exacerbation of price fluctuations have been made against large traders on the futures market. These price gyrations are spread globally as most cotton transactions are based on the New York price, although physical trading on this market has never exceeded 5 per cent of world cotton production.

18. Another key factor influencing cotton price formation is competition with synthetic fibres, the production of which is highly concentrated in a few transnational corporations. In recent years, the rapid growth of the petrochemical and chemical fibres has resulted in overcapacity and a downward pressure on prices. This has contributed to a further increase in the share of chemical fibres in the world market for textiles.

[12] *Ibid.*, para. 165.

19. Further, in the developed market-economy countries there is a high degree of interdependence of textile plants, the apparel industry, and the wholesaling and retailing of clothing. The processing stage of cotton and allied fibres is one of a loose oligopolistic structure. Approximately 35-40 large textile corporations dominate textiles processing in developed and developing countries. Their position has been reinforced by new technology in textile machinery, which is controlled by a few transnational machinery producers in developed countries. In recent years, this technology has influenced the pattern of world fibre consumption and has determined the relative competitiveness of various countries in keeping abreast with innovations. Developing countries have been adversely affected, as this machinery is highly capital intensive and, without it, they are unable to compete effectively in world markets.

20. On the other hand, the apparel industry is increasingly shifting to lower cost developing exporters (such as Hong Kong, the Republic of Korea and India) where it is characterized by fairly competitive small-scale units. In certain developed countries, however, textiles and apparel industries have emerged, as with Courtaulds, whose estimated share of the United Kingdom apparel market is 15-20 per cent.

21. At the wholesaling and retailing level, oligopolistic structures are again evident. These large interests are able to obtain discounts from apparel producers by dealing in large quantities. In addition, by playing off low-cost apparel manufacturers in developing countries against their own national apparel producers, they are able to obtain higher mark-ups on cheaper imported apparel, which they can price at around the same level as domestic apparel. As for wholesale/retail margins, in developed market-economy countries they are roughly half the retail prices, whereas in developing countries they are between 25 and 30 per cent of the retail price.

Hides, skins and leather

22. One of the main characteristics of the market for hides, skins and leather has been the shift during the past decade in the composition of developing countries' exports from raw hides and skins to tanned material, in spite of the substantial trade barriers erected by developed countries to protect their domestic leather industries. This factor seems to confirm that the developing countries have a marked international comparative advantage in leather tanning. By shifting from exports in raw form to finished leather, it is estimated that an exporting country could more than double its foreign-exchange receipts.[13] Governments in some producing countries have implemented policies to restrict the export of raw hides and skins and to encourage the production and export of leather and leather manufactures, especially footwear.

23. In developing countries the marketing and distribution of hides and skins is done either by export merchants or by domestic tanners. In the consuming countries there is a wide choice of prospective supplies of hides and skins, and therefore prices tend to be very

[13] See "Marketing and distribution systems for hides, skins, leather and leather footwear: preliminary report by the UNCTAD secretariat" (TD/B/C.1/163), para. 87.

competitive. As for leather exports, the bulk are channelled through agents who operate in the importing countries. These agents have previously established sales contracts with final consumers, whether tanners or shoe manufacturers. Direct sales from developing exporting countries to footwear manufacturers or to tanners in developed countries are rare. Owing to the existence of middlemen at each stage of production, there is practically no vertical integration in the industry.

24. Even in the case of developing countries which have moved to higher stages of leather processing, such as footwear, marketing and distribution channels are controlled by a few powerful buying agents in the importing countries. Supplies are selected according to a predetermined price range for the various qualities. Therefore, producers must adhere to the conditions or be excluded from the importer's list of potential sources of supply. Further, developing countries frequently lack information on fashion changes and often they are not able to make structural changes to adapt to specific requirements. Other factors which adversely affect developing countries' exports are delivery time and transportation costs, which can outweigh the original advantage of lower production costs and prices, and the escalation of tariffs in developed countries according to the degree of processing, which reduce the profitability of semi-processed exports.

Tobacco

25. Seven large corporations together effectively control each stage of tobacco production from leaf purchasing in both developing and developed countries to the manufacturing and distribution of tobacco products on a world-wide scale. This oligopolistic structure is reinforced by collusive action, such as allocation of market spheres of influence among these corporations, banking linkages and the use of mass advertising. The need for greater public accountability of their corporate practices is also relevant to their transfer pricing techniques. As approximately 85-90 per cent of leaf tobacco exports are under the control of about six transnational leaf buyers, all of which are either subsidiaries of the major tobacco corporations or are commercially linked with them, the timing of sales is at the discretion of the leaf buyers. The developing countries supply 55 per cent of world leaf tobacco through foreign oligopsony-controlled marketing channels; their processed exports are virtually non-existent and they have no influence on the design and output of machinery for leaf tobacco processing and manufacturing. Thus developing countries' income from the tobacco trade is largely dependent on the demand response and marketing decisions determined by a few large tobacco corporations. Developing exporting countries are, thus, totally marginalized in the marketing decision process.

26. The incidence of tariff barriers on leaf tobacco and manufactured products is high in consuming countries. In addition, it tends to increase with the degree of processing. Quantitative restrictions limit the range of consumer choice and take forms such as import embargoes, import quotas, import licensing and blending regulations. Further, various forms of taxation, such as excise tax, value added tax and luxury tax, are applied to tobacco and account for 60-90 per cent of the retail price of manufactured tobacco in most developed countries.

27. With a few exceptions, the maritime transport of tobacco is within the control of the transnational leaf buyers and large transnational corporations. Where developing countries control the transport of their tobacco exports, freight rates imposed by major shipping conferences make them less competitive in the consuming markets.

Commodity futures markets

28. The commodity price boom of 1973-1974 was accompanied by a tremendous expansion of futures trading in a wide range of commodities. Speculative trading, rather than hedging needs, explains the sharp increase in the volume of futures turnover, since such increase greatly exceeded the corresponding expansion in physical demand for any commodity. Furthermore, statistical analysis suggested the existence of a relationship between speculative activity and commodity price instability during the period 1970-1974. Also, commodities with greater speculative intensity showed greater price instability. Among the main causes of the upsurge in speculation were the role of underlying monetary and economic factors such as inflation and exchange uncertainties, the asymmetrical behaviour of the stock market, and the ample availability of short-term credit in industrial countries. The study suggested that there was a case for the wider application of government regulation of commodity futures markets in order to improve public confidence in the operation of these markets, which are plagued by malpractices.[14]

B. Market power

29. The purpose of this section is to highlight the main common issues on commodity marketing and distribution which have emerged from the individual studies outlined above as well as from other available information. One of the key factors contributing to the weakness of developing countries in the commodity sector is the unequal market power between the bulk of the producers and the main consumers. This power is affected by several factors, such as: (*a*) the control over their resources and their ability to manage supply; (*b*) the degree of concentration in production, trade and marketing; (*c*) barriers to entry imposed by inter-firm or intra-firm arrangements; (*d*) availability of relevant market information; (*e*) alternative sources of supply; and (*f*) control of transportation.

1. *Control and management of supply*

30. Developing countries have gained greater control over their resources in primary commodities over the past several years. In the area of minerals and metals, an appreciable proportion of foreign investment has been nationalized. This is particularly evident in the cases of bauxite, iron ore and copper. Nationalizations have also occurred in some plantation crops such as bananas, tea and sugar. For other agricultural crops, like cocoa and cotton, the control has been obtained through national marketing boards or *caisses de stabilisation*, which co-ordinate sales for the country. Despite this trend, which is further discussed in chapter II, producing countries still find themselves excluded from important sections of the distri-

[14] See TD/B/C.1/171, paras. 42-45.

bution channels, which are dominated by transnational enterprises.

31. With regard to their ability to manage supply, as illustrated in the studies on cocoa and tobacco, the financially weak developing countries are frequently forced to time a considerable proportion of their sales in accordance with the urgency of their foreign exchange needs. Thus, they are not able to take full advantage of price fluctuations in the world market. By contrast, a limited number of financially strong buyers in developed countries are able to postpone buying in the expectation of lower prices, thus bringing about a further price deterioration. The cocoa study concluded that the efficiency of marketing abroad would be considerably improved if the producing countries were assisted in an effort to increase their capacity to hold stocks and if their marketing agencies were free to organize the timing of sales in accordance with market developments.

32. The auction system, which is used for commodities such as tea, also has ramifications for supply management. A recent World Bank study found that:

> The adverse effects on prices of tea surpluses have been aggravated by the organization of the market. The bulk of tea is sold through auctions, a mechanism which should approximate to a free competitive market if the number of buyers and sellers, and their bargaining strength, are equal. In fact, tea is offered by a large number of producers, under pressure to sell because of a weak financial position and a risk of quality deterioration in places of origin. Thus, they immediately push supplies through the distribution system. In contrast, the number of buyers is much smaller and has declined over time, so that the trade is now dominated by a few large firms; they are protected against occasional supply shortfalls by the length of the retail pipeline, and can take advantage of any excess supplies by offering very much lower prices at auction.[15]

2. *Concentration in production, marketing and distribution*

33. A major source of market power is the concentration of control over international production, marketing and distribution. This can be inferred from the percentage share of the production and/or marketing of a commodity at any specific level of processing which is accounted for by a small number of corporations. Table 1 shows this information for a sample of primary commodities for which data are available. Concentration is especially strong in aluminium, bananas, tea and tobacco, and, for many commodities, the number of firms supplying an appreciable proportion of the world market is very small indeed. Thus, these firms are able to control or decisively influence the marketing, distribution and pricing of the commodities concerned on a world-wide basis.

34. For the United States, which is the most important market for developing countries' primary products, a recent study shows that a large share of commodity imports consists of either internal company transfers or transactions between parent companies and their affiliates. In 1975, related-party trade was predominant for a number of commodities imported by the United States from developing countries, such as bauxite (88 per cent), rubber (80 per cent), cotton (68 per cent) and bananas (67 per cent). Relatively high proportions of related-party transactions—ranging from 20 to 30 per cent—were also registered in tea, iron ore, manganese and some types of tropical timber.[16] Recent UNCTAD secretariat calculations show that in 1977, almost half of all United States imports of primary products from developing countries were on a related-party basis. The extent of control by transnational corporations over developing countries' exports has been thoroughly investigated for only a few commodities and this is an area in which a great deal of further research of a quantitative nature is required.

35. Control by transnational corporations often covers each stage of the product cycle, from production to transport, processing and distribution. Examples of complete vertical integration can be drawn from several commodities, especially bananas, tobacco, bauxite, sugar, tea and rubber. Vertical integration provides transnational corporations with great opportunities to influence the distribution of benefits from commodity trade through income allocation mechanisms, as well as to affect the direction and processing content of such trade. As shown above, intra-firm trade is an important component of the world's commodity trade and the dominant market power held by the transnational corporations provides substantial scope for manipulation of prices for commodities (either raw or processed) involving transactions both between parent companies and the subsidiaries, and among individual subsidiaries themselves. Especially in cases where there is no readily identifiable "market" price, developing countries are liable to suffer from underpricing of exports by transnational corporations. In several countries, the imposition of an *ad valorem* export tax provides an incentive to reduce export transfer prices, as do certain other government measures, such as exchange controls and limits or taxes on profit remittances abroad. The available evidence indicates that such manipulations are not infrequent and cause sizable foreign exchange losses—and associated fiscal losses—to developing exporting countries. Malpractices in transfer pricing also occur with regard to imported services related to the marketing, transport and processing of primary commodities. Excessive payments for services provided by affiliated companies engaged in shipping, insurance, brokerage, etc., are a convenient way for transnational corporations to transfer resources out of a country, thus reducing its net foreign exchange earnings from commodity exports.[17]

3. *Barriers to entry*

36. One of the major barriers to the entry of developing countries into marketing and distribution is product differentiation, which is usually achieved by the transnational corporations through trade marks or brand names. Such differentiation is reinforced by the intensive use of advertising. The proliferation of brands belonging to the

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[15] D. Avramovic, "Stabilization, adjustment and diversification: a study of the weakest commodities produced by the poorest regions", World Bank Staff Working Paper No. 245, November 1976, pp. 20 and 21.

[16] See G. K. Helleiner, "Freedom and management in primary commodity markets: United States imports from developing countries", *World Development* (Oxford), vol. 6, No. 1 (January 1978), p. 23. In this study, related-party trade refers to transactions where the buyers are related through ownership (5 per cent or more of the equity stock) to the sellers.

[17] See *Dominant positions of market power of transnational corporations: use of the transfer pricing mechanism* (United Nations publication, Sales No. E.78.II.D.9).

TABLE 1

Market concentration in some primary commodities and selected areas

Commodity and type of activity	*Area*	*Year*	*Number of leading firms*	*Market share (percentage)*
Bananas				
Importers	World	1977	3	60
Importers	USA	1977	3	90
Bauxite				
Bauxite industries	World[a]	1974	6	69
Alumina industries	World[a]	1974	6	76
Aluminium industries	World[a]	1974	6	68
Cocoa				
Chocolate manufacturers	USA	1967	4	77
Chocolate manufacturers	United Kingdom	1967	4	78
Coffee				
Processers of green coffee	USA	1978	4	70
Processers of green coffee	Germany, Fed. Rep. of	1974	4	66
Copper				
Refiners	USA	1972	4	70
Iron ore				
Raw steel producers	World[a]	1976	15	50
Manganese				
Manganese industries	World[a]	1978	6	50
Rubber				
Tyre manufacturers	USA	1968-1969	5	78
Tyre manufacturers	France	1968-1969	3	85
Tyre manufacturers	United Kingdom	1968-1969	4	82
Tea				
Blenders	World[a]	1978	5	75
Tobacco				
Cigarette manufacturers	USA	1975	4	87
Cigarette manufacturers	Germany, Fed. Rep. of	1975	4	55

Sources: UNCTAD secretariat reports and estimates.

[a] Market-economy countries only.

same company has often been used to increase market dominance, to eliminate competitors and to raise barriers to potential new entrants. This situation prevails for many agricultural products, such as coffee, cocoa, bananas, tea, vegetable oils and tobacco.[18] A further effect of the transnational corporations' market dominance is the limited impact that the producers can have on shaping consumer behaviour. At present, the ability to influence consumption patterns is mainly a prerogative of firms operating towards the user end of the distribution chain. The interests of such firms can hardly be expected to coincide entirely with those of producing countries. As illustrated in the UNCTAD secretariat's reports on bananas and tobacco, collusion among transnational corporations on market sharing is another key obstacle to market penetration by developing exporting countries.

37. Government policies in developed market-economy countries have often accentuated the control of transnational corporations over marketing and distribution[19] and made it much more difficult for potential competitors to enter the market. These policies include tariff concessions for off-shore processing operations of materials originating in the country, tax concessions for firms engaged specifically in international trading activities and the promotion or condoning of external trade cartels. Furthermore, developed countries have not taken action

[18] As an example of restrictive business practices involving brand names, the Commission of the European Communities and the Court of Justice of the European Communities found that United Brands had abused its dominant position in several member States through the exploitation of its brand name Chiquita.

[19] For an extended discussion of these policies, see "The rôle of transnational corporations in the marketing and distribution of exports and imports of developing countries: report by the UNCTAD secretariat" (TD/B/C.2/197).

with respect to transnational corporation mergers and vertical integration outside of their borders; nor have they, except in selected cases, investigated the effects of transfer prices applied to commodity imports. As a result, transnational corporations have been largely left or encouraged to develop their dominant market position in international trade.

4. *Availability of relevant market information*

38. There are two aspects to the information problem which reduce the market power of developing countries. First, by virtue of vertical integration, transnational corporations enjoy access to general and complete information covering the activities of all their units operating at the various stages of the product cycle and at various locations. Conversely, developing countries often lack sufficient information on all aspects of commodity trade in their bargaining with the transnational corporations. Unequal access to market information and lack of market transparency have been singled out as key problems in the trade of several commodities in the UNCTAD secretariat reports for preparatory meetings[20] under the Integrated Programme for Commodities.

39. Secondly, where commodities are traded on commodity exchanges, the members of the exchange are normally large traders, brokers and manufacturers—not exporters. The exchanges themselves are usually located in New York and London and the exchange members are privy to the most up-to-date market information available in these centres, and to data concerning the business of each trader, which in some cases is not made public. As an example, the cocoa study concluded that:

> In a structure as flexible and manœuvrable as a futures market, what determines the gain or loss of individual firms or countries is not so much the price itself as a prior knowledge of its coming direction of movement. If, in addition, the power or capacity to take advantage of prior knowledge exists, it is feared that any structure, however flexible, could be manipulated to the advantage of one or other side, especially if, as in the case of cocoa, the details of transactions in future contracts are not publicly available.[21]

40. With regard to the operations of the New York Cotton Exchange, the prices are influenced by 15 large cotton-trading multinational corporations which handle about 90 per cent of the international trade in cotton. These giant traders, by controlling very large volumes of futures contracts during delivery months, are in a position to manipulate prices to their advantage. Developing countries are thus not connected directly to the exchange and are at the mercy of its price-setting function for their exports.

5. *Alternative sources of supply*

41. The bargaining position of developing countries is further weakened by the transnational corporations' ever-growing ability to diversify their sources of supply country-wise and product-wise. Because of the pervasive role of the transnational corporations cutting across national frontiers, commodity exports in developing countries are often dependent on the needs of, and the alternatives open to, the transnational corporations operating in that particular commodity. Importers' marketing flexibility is enhanced by the numerous possibilities of cross-commodity substitution. As an example, the main interest of most developing countries exporting vegetable oils and oilseeds is concentrated on a single product such as palm oil or coconut oil. Transnational corporations, on the other hand, are often dealing with a wide range of oils which are increasingly interchangeable in many uses. Developing countries are also at a disadvantage because of the competition of their commodity exports with synthetics. The situation in hard fibres is a case in point. European companies importing raw sisal to produce sisal twine also manufacture polypropylene twine. Thus, the market share of sisal is crucially dependent on the marketing and promotion strategies of these companies. Finally, the bargaining power of transnational corporations vis-à-vis developing exporting countries is strengthened by the growing trend of these corporations towards conglomerate diversification. In recent years many transnational corporations which had traditionally specialized in the production, marketing and distribution of a single commodity have rapidly diversified their investment portfolio by acquiring interests in a variety of industries, thus spreading the risks among different activities and becoming less vulnerable to the vagaries of an individual commodity market and to the demands of individual commodity producers. The reports on bananas and tobacco provide several illustrations of this trend.[22]

6. *Control of transportation*

42. Maritime transport costs account for an important share of the landed price for many commodities, especially minerals. However, as transport of these commodities is predominantly carried out in vessels owned by interests in developed importing countries, the developing exporting countries forgo vast potential invisible earnings from the shipping of their primary products. In the case of some commodities, such as bananas, iron ore and tobacco, vertically integrated transnational corporations own, or control through affiliates, captive tonnages or maintain chartered fleets. For commodities such as cocoa, exports of which are handled mostly by domestic producers, transport costs are high, as conference liners are largely used rather than the cheaper system of contract shipments or charter services. The latter would require shipments in bigger lots and, in turn, better co-ordination among exporters as well as additional storage facilities and stock financing. Increased participation by developing countries in the maritime transport of their commodity exports would enable them not only to acquire additional foreign-exchange earnings but to exercise greater control over the timing of shipments, thus improving their stocking nad marketing strategies.

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[20] This issue has been raised particularly for tropical timber and meat (see "Consideration of international measures on tropical timber: report prepared jointly by the secretariats of UNCTAD and FAO" (TD/B/IPC/TIMBER/2), para. 35, and "Elements of an international arrangement on beef and veal: report by the UNCTAD secretariat" (TD/B/IPC/MEAT/2 and Corr.1), para. 116).

[21] See TD/B/C.1/164, para. 169.

[22] See TD/B/C.1/162, paras. 46-47; and *Marketing and distribution of tobacco* (United Nations publication, Sales No. E.78.II.D.14), paras. 42-47.

C. Empirical evidence on the distribution of benefits from trade

43. In some of the studies undertaken by the UNCTAD secretariat, attempts were made to understand the pricing policies and mechanisms at each stage of the marketing channels, and to build costs and profits chains from the producer to the consumer. These attempts are useful for an assessment of whether and to what extent inefficiency, or excess profits, exist in the marketing and distribution systems for a primary commodity and of the scope for potential gains from improvements in this existing structure. For example, the study on bananas revealed that in 1971 only about 12 per cent of the retail price went to the producing countries, while the remaining 88 per cent accrued basically to developed countries' firms and their fiscal authorities. While the average export tax was 0.8 per cent of the final retail price, import duties in the consuming countries were 6.9 per cent, i.e. more than eight times higher. In developed consuming countries, gross margins of ripeners and retailers together represented some 50 per cent of the price and were almost five times the estimated gross return to growers. In the case of tobacco, the UNCTAD study concluded tha the distribution of income between producing and consuming countries was even more unequal: in 1972, the gross returns to tobacco growers accounted for less than 6 per cent of the retail value of cigarettes in the United States, while wholesalers' and retailers' margins represented 23 per cent and federal and State taxes another 41 per cent. Further, the study on hides, skins and leather showed that the income received by developing countries from footwear exports accounted for only 25 per cent of the retail price in developed country markets, or not as much as the over-all trade mark-ups charged by importers and wholesalers. Finally, as with most primary commodities, processing and wholesaler/retailer margins account for the bulk of the final price of cotton products. It has been estimated that the cotton growers' share ranges from 3 per cent to 15 per cent according to markets and products.

44. The fact that the price received by the producer is only a small fraction of that paid by the consumer is not sufficient to prove that inefficiency or monopolistic profits exist. Further, these factors cannot explain by themselves the modest share of producers' returns in final prices. Consideration should also be given to the present international structure of production and marketing which enables the consumer nations to remunerate at relatively high levels the factors of production employed on the operations taking place in their own countries (namely, manufacturing and distribution). It is this structure which results in wide real-wage differentials between developed and developing countries, thus affecting the size of the value added at the various stages of production. The small share of the final price presently accruing to the producer also indicates that the transfer of a larger share of the final price to developing producing countries would not necessarily entail any significant effect on the price to the final consumer. As concluded in a recent study, "where there is high market concentration coupled with high margins, there is certainly a strong possibility that revenue potentially available to developing countries is now being realized by foreign firms".[23] The increase in the benefits accruing to developing exporting countries could derive from larger participation in the intermediate stages of transport, marketing, processing and final distribution presently being dominated by consumer countries, or from an increase in producer (export) prices or from both.

45. An additional element which needs to be taken into consideration is the room for adjustment available if import duties and consumption taxes in the developed countries were decreased or removed or transferred back to developing exporting countries. The share of economic rent being absorbed by consumer countries through taxation is substantial for many commodities. A compilation prepared from national official sources (see table 2) shows that in

[23] G. K. Helleiner, *World Market Imperfections and the Developing Countries* (Overseas Development Council, 1978) p. 18.

TABLE 2

Revenue proceeds from internal fiscal charges[a] and tariffs on specified commodities in Japan and EEC, 1976

(Millions of dollars)

	Coffee	*Cocoa*	*Tea*	*Bananas*
Japan				
Tariffs	–	–	1.3	72.5
Internal charges	16.9	3.1	1.3	–
European Economic Community				
Tariffs	116.7	4.1	24.9	102.9
Internal charges	671.9	8.0	20.3	33.4
Denmark	(14.8)	–	–	–
France	–	(0.6)	(0.3)	–
Germany, Fed. Rep. of	(536.6)	–	(20.0)	–
Italy	(120.5)	(7.4)	–	(33.4)
TOTAL	805.5	15.2	47.8	208.8

Sources: Japan, Ministry of Finance, tax Bureau, *An Outline of Japanese Taxes* 1976; Japan Tariff Association, *Custom Schedules of Japan* (1976); EEC, *Bulletin international des douanes*, 1975-1976 (Brussels, International Customs Tariffs Bureau); Commission of the European Communities, *Inventory of Taxes*, 1976 edition (Brussels, Directorate-General "Financial Institutions and Taxation"); *FAO Trade Yearbook* (Rome), 1976; United Nations, *Monthly Bulletin of Statistics*, 1978.

[a] Proceeds from value added tax in EEC have been excluded.

1976 10 major developed market-economy countries (the EEC countries and Japan) collected about $1 billion from internal charges and tariffs on the tropical beverage crops and bananas as compared to $680 million in 1969. Proceeds from coffee taxes constituted the bulk of these revenues. It should also be noted that, despite the preferential tariff treatment granted by EEC to the ACP countries under the Lomé Convention[24] and the reduction in consumption taxes in some selected countries, tax collections on such commodities increased substantially between 1969 and 1976 as a result of the large expansion in import values.

46. While detailed information on the various stages of the price chain is available from published sources for only very few commodities, there are other indicators which can offer some rough evidence on the distribution of gains between developed consuming countries and developing producing countries. One such indicator is the gap between world market prices and export unit values, the latter being a relatively good proxy for the average prices at which commodities are actually sold. A study published in 1978[25] has shown that during 1971-1975 unit values of 19 major commodities exported by developing countries averaged 85 per cent of world market price, as against 88 per cent in 1961-1965. Thus, it would appear that import trade margins have increased at the expense of primary producers. By contrast, during the last 15 years, prices received by developed countries for their primary commodity exports were close to or even exceeded world market prices. The study concluded that "the actually realized prices may fall short of market quotations for many reasons, such as quality differences, transport costs, and the terms of long-term contracts. But the systematic nature of the shortfalls experienced by developing countries strongly suggests that it is their low market staying power and the corresponding weakness in their bargaining strength which is the main cause".[26]

47. The gap between world market prices and export unit values explains only a small fraction of the difference between final consumer prices and export unit values. Although the size of such differences alone does not provide sufficient basis for an analysis of the relative efficiency or adequacy of a marketing and distribution system for a specific commodity, price margins and their evolution over time can still show the order of magnitude of possible international income transfers. A study by the UNCTAD secretariat[27] indicated that in many cases only a minor portion of the final price paid by the consumer in developed countries goes to developing exporting countries, even when the exported commodity requires little processing. Tea, bananas and coffee are striking examples in this respect. In addition, the marketing and processing margins for most commodities have increased over the last two decades (see table 3).

[24] Convention between the European Economic Community and 46 African, Caribbean and Pacific States, signed at Lomé, Togo, on 28 February 1975 (*Official Journal of the European Communities*, vol. 19, No. L 25, 30 January 1976).

[25] D. Avramovic, "Common Fund: why and what kind?", *Journal of World Trade Law*, vol. 12, No. 5 (September-October 1978).

[26] *Ibid.*, p. 379.

[27] "Proportion between export prices and consumer prices of selected commodities exported by developing countries: study by the UNCTAD secretariat" (TD/184/Supp.3 and Corr.1).

CHAPTER II

Progress made by developing countries in marketing and distribution

48. The scope for international action to improve the developing countries' gains from commodity trade may be usefully assessed against the background of recent efforts such as national measures, concerted actions by producers, and international initiatives. This chapter examines a number of these endeavours and their success.

A. National measures

49. Since the 1960s, a clear trend has emerged towards greater control over natural resources by developing exporting countries. These efforts have ranged from mild action to more stringent measures such as nationalization. Such steps include the renegotiation of long-term contracts as well as the establishment of joint ventures with foreign interests, particularly transnational corporations, in order to participate in the management of their activities in the country. However, the positive effects of joint ventures for developing countries has been questioned. While host Governments are interested in acquiring the necessary managerial and technical skills, the transnational enterprise is reluctant to acquiesce in such a transfer. Thus, as joint ventures have in many cases not substantially affected the location of the decision-making process, some host Governments have terminated their agreements with transnational corporations.[28]

50. And finally nationalization, especially in the case of metals, has been a policy pursued by many developing countries. With regard to bauxite, copper and iron ore, 24 cases of nationalization or take-over occurred in 13 different countries during the period 1960-1974.[29] Nationalization, however, is not a sufficient condition for modifying the terms of sales—expert by abolishing transfer prices—or for changing substantially the control over the downstream operations. Following the nationalization of foreign companies, developing countries are often faced with their lack of technical and managerial expertise and, thus, conclude management, sales and technology agreements with the parent companies of the nationalized enterprise. Although some of these agreements prove to be useful transitory measures to strengthen local capabilities, others lead to the maintenance of the *status quo* in the marketing and distribution stages. As an example, the banana study by the UNCTAD secretariat showed that the strategy of the transnational corporations involved in the banana trade centred on heavy expenditures on brand name

[28] In 1975, Ghana terminated its management agreements with all foreign-owned timber companies; similarly, in 1973 the Zambian Government terminated its management agreement with the Roan Selection Trust and Zambia Anglo-American Ltd. in the copper mining joint venture. See *Transnational corporations in world development: a re-examination* (United Nations publication, Sales No. E.78.II.A.5), para. 341.

[29] See "Permanent sovereignty over natural resources: report of the Secretary-General" (E/C.7/53) and "Permanent sovereignty over natural resources: report of the Secretary-General" (A/9716 and Corr.1).

TABLE 3

Exporting developing country's percentage share of retail price[a] in importing developed country for selected commodities

Commodity and importing country	*Average 1955-1960*	*Average 1961-1966*	*Average 1967-1972*	*1973*
Tea				
United Kingdom	61	57	53	48
Netherlands	56	46	38	28
Cocoa				
Germany, Fed. Rep. of	14	6	9	8
United Kingdom	24	10	15	17
Groundnut oil				
France	62	59	48	48
Germany, Fed. Rep. of	78	67	51	47
Citrus fruit				
France	34	37	30	26
Germany, Fed. Rep. of	31	33	29	25
Bananas				
Germany, Fed. Rep. of	25	23	23	19
United States of America	24	23	24	25
France	21	20	20	17
Coffee				
United States of America	46	43	43	50
Germany, Fed. Rep. of	20	17	18	18
France	38	35	34	33
Jute				
United States of America	51	48	40	34
France	32	35	32	25
Iron ore				
Germany, Fed. Rep. of	15	13	10	9
United States of America	12	10	8	7
Copper concentrate				
France	53	52	55	53
Copper, refined				
United States of America	81	81	77	90
Tin, refined				
United States of America	95	95	93	90
France	72	74	75	74

Source: "Proportion between export prices and consumer prices of selected commodities exported by developing countries: study by the UNCTAD secretariat" (TD/184/Supp.3 and Corr.1).

[a] Wholesale price in the case of jute (refers to percentage share in jute fabrics), iron (share in steel), copper(share in copper wire) and tin (metal).

product differentiation and control of distribution outlets while cutting back their involvement in banana plantations.

51. Another method used by individual developing exporting countries to augment their retained value from commodity exports has been the increase in local taxes and royalties, either through higher rates or through improved tax administration. Action along these lines was taken by Jamaica, which imposed a bauxite production levy on the vertically integrated foreign companies. Such a levy is proportionate to the price of aluminium, instead of that of bauxite itself. This new system of taxation has the advantage of linking the taxes payable to a real market phenomenon (i.e. the price of aluminium, for which there is market information) rather than on transfer prices used in intracompany transactions. Following Jamaica, seven developing producing countries have also raised their bauxite taxes and four of them have introduced production levies linked to the price of aluminium.

52. Another emerging trend in developing exporting countries' policies is their growing control over the external marketing of their primary exports, either through a system of centralized marketing or through the regulation of

export prices. An illustration of this trend is the control of production and sales of phosphate rock by the Moroccan Government, which has been able to raise its listed export prices substantially since 1974. Brazil provides other examples of the kind of national actions possible in this field. First, the Brazilian government agency dealing with coffee marketing owns storage facilities in Europe to supply the European market, in an effort to reduce its dependence on the large coffee importers. Secondly, the government enterprise in charge of iron ore production and exports owns ships which carry about one third of Brazil's iron ore exports. Thirdly, a State trading company handles about 30 per cent of Brazil's soya bean exports, in competition with powerful multinational trading firms, and is very active in hedging operations on commodity exchanges. Finally, the domestic private sector has also shown increasing interest in the marketing and distribution of primary exports. As an example, Brazilian private investors have acquired for $60 million Hills Brothers Co., the fourth largest coffee roaster in the United States and an important user of Brazilian coffee. These developments have considerably improved the bargaining power of primary exporters vis-à-vis importers, which are in most cases multinational companies supported by a sophisticated network of market intelligence. These improvements, however, have not been equally shared by all developing countries but rather concentrated in a few of the financially stronger middle-income countries, while the progress of the poorer developing countries, especially the least developed, has been much slower.

B. Concerted action by producers

53. In the spirit of the Programme of Action on the Establishment of a New International Economic Order,[30] various moves towards concerted action by the producers of a number of commodities have taken place in the last few years. Efforts by exporters to increase and strengthen producers' associations have been made for a number of commodities.[31] These attempts to improve their bargaining positions have had mixed success. So far as the specific field of marketing and distribution is concerned, these associations have furthered exchange of information among members, training programmes, harmonization of marketing policies, joint marketing companies and market promotion, as in the case of the recently established International Association for the Promotion of Tea. Among these actions, a significant development was the formation in 1974 of the Union of Banana Exporting Countries by five Latin American producing countries. The member countries have taken two important decisions with regard to marketing which are of general interest since they may be applied to other commodities. The first measure was the joint imposition of an *ad valorem* export tax on bananas. The rate of this tax, however, was not uniform among the member countries, mainly because of the strong influence of the transnational corporations concerned on individual countries. The second major step by the members was the creation, in 1977, of a joint marketing company for bananas, whose operations effectively started only in mid 1978 and, at least initially, appear to be aimed at promoting exports to non-traditional markets, such as the CMEA countries and the Middle East.

C. International initiatives

54. On the international plane, despite the adoption of Conference resolution 93 (IV) setting up the Integrated Programme for Commodities, which calls for the establishment of multidimensional commodity agreements, no existing international agreements include measures on marketing and distribution. Moreover, the preparatory meetings held on individual commodities in pursuance of resolution 93 (IV) have largely centred on measures to stabilize commodity markets rather than on action programmes to improve marketing and distribution systems for primary commodities. Yet it was evident that, for some commodities, marketing and distribution problems were paramount. One of the few exceptions has perhaps been the preparatory meetings on cotton, where the question of market information and market structure, including the role of terminal markets, was discussed. The need for improved market intelligence was also underlined during the preparatory meetings on tropical timber. On the other hand, measures other than stocking, including marketing and distribution, have been widely debated in the context of the negotiations on a common fund, and the notion that the common fund should be engaged in the financing of such measures has been gaining wider acceptance within the international community.

55. Other areas of competence of UNCTAD have a bearing on the issue of marketing and distribution for primary products exported by developing countries. These areas include the control of restrictive business practices, shipping, and economic co-operation among developing countries. With regard to the control of restrictive business practices, negotiations are in progress in UNCTAD, pursuant to Conference resolution 96 (IV), on a set of multilaterally agreed equitable principles and rules for the control of restrictive business practices having adverse effects on international trade. Given the significant progress made at the expert group level, the Trade and Development Board at its eighteenth session recommended that the General Assembly convene a negotiating conference for this purpose. Recognizing that, as the Conference has stated in paragraph 10 of its resolution 70 (III), "developing countries should have an increasing and substantial participation in the carriage of maritime cargoes", the Committee on Shipping has requested that the secretariat prepare a set of guidelines to increase the competitiveness of merchant fleets of developing countries. Furthermore, it has been noted that the competitiveness of fleets from developing countries has been adversely affected by the expansion of open-registry fleets.[32] In the area of economic co-operation among developing countries, Conference resolution 92 (IV) urged the developed countries to provide support for developing countries in setting up and operating multinational marketing enterprises. In addition, the Committee on Economic Co-operation among Developing Countries established a programme of work within UNCTAD and called upon the Secretary-General of UNCTAD to give

[30] General Assembly resolution 3202 (S-VI) of 1 May 1974.

[31] For details see "The world commodity situation and outlook: report by the UNCTAD secretariat" (TD/B/C.1/207).

[32] Report of the *Ad Hoc* Intergovernmental Working Group on the Economic Consequences of the Existence or Lack of a Genuine Link between Vessel and Flag of Registry (TD/B/C.4/177), annex.

special priority to, *inter alia*, the initiation of studies relating to (*a*) the establishment of multinational marketing enterprises and (*b*) co-operation among State trading organizations. As regards (*a*), research activities are already under way on the institutional and legal aspects as well as on the economic analysis of opportunities to promote the establishment of such enterprises. As regards (*b*), the studies being carried out cover the establishment of a trade information and joint market research system among developing countries and co-operation among State trading organizations in such fields as joint export promotion activities and the promotion of trade among developing countries. To be sure, international measures to control the transnational corporations and efforts to strengthen economic co-operation among developing countries, as well as to promote the development of their merchant fleets, should, in the medium and long run, have a beneficial impact on the bargaining power of the primary producers of the third world.

CHAPTER III

Areas for further international co-operation action

56. In discussing international policy options in the field of marketing and distribution for primary commodities it is possible to identify several areas for further international co-operation action. These areas include: (*a*) additional preparatory work; (*b*) support for national action; (*c*) support for co-operation among producers and (*d*) measures in developed countries.

A. Additional preparatory work

57. Before reviewing possible concrete actions, it should be recognized that little detailed information is presently available on the structural characteristics of the functioning of most commodity markets. In-depth studies carried out by the UNCTAD secretariat cover only three (bananas, cocoa, and cotton) out of the 18 commodities listed in section II of Conference resolution 93 (IV). Analyses of marketing and distribution for four additional commodities have already been commenced by the secretariat. It would therefore seem desirable that studies in depth should be undertaken for the remaining 11 commodities. These studies should provide major insights into different market structures and different relative bargaining positions in order to formulate policy proposals appropriate both generally and for each commodity. Thus, the detailed investigation of present structures should be geared to the operational aim of the inquiry.

58. The secretariat's experience in conducting such studies has shown that limited information and resources are a major constraint in the pursuit of this work in the kind of detail which is amenable to the formulation of appropriate international policies. Especially because of the integrated nature of transnational corporations' operations, the quantity and reliability of data available are extremely inadequate and such data are often regarded as secret. A great deal of original probing and time-consuming research has accordingly to be contemplated. Commitment, therefore, by Governments to the supply of information required for the adequate study of these matters as well as to the necessary resources would be needed.

59. In addition to individual commodity studies, cross-commodity research activities should be carried out on specific topics, as in the course of the work already undertaken it has become evident that several common issues arise in connexion with commodity marketing and distribution systems. Such issues include the impact of the operations of international commodity exchanges on returns to developing countries. A comprehensive study of the functioning of these markets in developed countries (largely the United States of America, the United Kingdom and France) would be needed to determine to what extent the operations that take place there affect not only price fluctuations but also price levels and therefore developing exporting countries' incomes. It should be recalled that these international commodity markets, although located in the territories of developed market-economy countries, perform a role which is undoubtedly international, as they affect either directly or indirectly the entire world economy. It is, therefore, important, for the restructuring of commodity trade, to find mechanisms through which international commodity exchanges adequately support the development process. These studies may lead to a variety of policy options. For example, the preliminary work on speculation, and on cocoa and cotton terminal markets, already indicates that to make world commodity trade more equitable, the international community should agree on a set of principles and rules to which all international commodity exchanges would have to adhere. The report on speculation and price instability concluded that improvement in access and reduction of secrecy could facilitate attempts by producers in developing countries to use futures markets to reduce the uncertainty that surrounds the production, processing and distribution of their commodities.[33] A desirable "internationalization" of commodity markets might involve a restructuring of their rules so that producers and consumers are equally represented on the exchange and, thus, by-laws to supervise market performance can be negotiated on an equal basis. Producers and consumers alike may further want these markets to be regulated by international agencies, in order that disputes may fall under international rather than national jurisdiction.[34]

60. Another promising area for cross-commodity studies is the use of long-term contracts in commodity trade, especially for minerals and metals. The various features of these contracts and their impact on price formulation need to be investigated with a view to exploring the possibility of establishing internationally agreed principles and standards governing such contracts, in order to protect the weaker bargaining partners. The need for standardization of marketing practices and arrangements is most pressing in regard to bilateral long-term contracts, particularly their major clauses dealing with the fixing of prices and renegotiation of terms in the light of inflation and exchange rate movements, delivery adjustments, contract renewals and so on. These contracts often

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[33] TD/B/C.1/171, para. 45.

[34] See T. A. Kofi, "M.N.C. control of distributive channels: a study of cocoa marketing", *Stanford Journal of International Studies* (Stanford, Calif.), Spring 1976.

do not directly involve transnational corporations and frequently are entered into by governments themselves. None the less, there are no international guidelines to which the parties to such contracts might refer.

B. Support for national action

61. Besides the need for additional technical preparation, it is possible at this stage to envisage several areas for international action. At the national level, for example, the international community could perform a very useful function by providing technical and financial assistance to individual developing exporting countries, especially the least developed. As shown in chapter I, many of these countries share a common problem: a weak control over their exports. As to the organizational aspects of the question, an appropriate existing international agency could deliver advisory and consultancy services for the establishment of or improvements in marketing boards and State trading organizations, as well as investigate the legal and other obstacles that developing countries face in developed countries (both market-economy countries and the socialist countries of Eastern Europe) in marketing their products. With regard to the financial needs of these activities, at present no international lending agency is financing national stocks, the holding of which is a prerequisite for effective market staying-power in the case of many commodities. This vacuum might be filled by the common fund which is presently being negotiated. Developing countries have urged that such a fund should also finance national stocks for commodities facing difficulties and which are not covered by commodity agreements. Increased efforts by existing international financial institutions would also be needed to finance storage facilities and improvements in internal transportation systems.

C. Support for co-operation among producers

62. In the course of the preparatory meetings under the Integrated Programme for Commodities, it became evident that limited and irregular availability of market information to primary producers was a problem common to a number of commodities. There seems, therefore, to be a need for the establishment of market intelligence services organized on a joint basis by developing exporting countries. A recent example of a joint effort by producing countries in this field is the creation of the International Association for the Promotion of Tea, whose objectives are, *inter alia,* to collect, analyse and disseminate relevant market information. Since the major purchasing centres are the same for most commodities, considerable economies could be achieved through a multicommodity market intelligence centre covering the major commodities of export interest to the developing countries.

63. Conference resolution 92 (IV) urged developed countries and international organizations to give support to developing countries in the setting up and functioning of their multinational marketing enterprises. As mentioned above, this issue is being studied within the framework of economic co-operation among developing countries. It appears that, given a certain amount of external support, State trading organizations could act as important catalysts for launching multinational marketing enterprises of developing countries.[35] As an example, the export of packed tea offers considerable scope for joint export marketing, as common packing and other facilities could be set up economically.

64. As in the case of support for individual countries' efforts, assistance by international organizations to producer groups could be either technical or financial. With regard to financial assistance, this is an area which would benefit from the common fund's operations, as existing international lending agencies are ill-equipped for this purpose. While these agencies specialize in investment financing, expenditures related to the operations of a joint marketing enterprise are basically of a working capital nature (such as stock acquisition and holding) and thus do not fit into the financing schemes of such agencies.

65. As a first step towards common marketing, a more immediate goal for co-operation among primary producers could be joint representation on commodity exchanges. As discussed in chapter I, developing exporting countries rarely have their own representation on commodity exchanges. In order to acquire direct knowledge of the activities of the exchanges which are crucial for their export commodities, developing countries could obtain joint membership on these exchanges. As this matter would involve financial and institutional constraints, the Conference may wish to urge developed countries to support concerted action by producers in this direction. This support should include the removal of any restraints, where they exist, or of any future restraints which would adversely affect their action.

66. With regard to shipping, under agenda item 14 (*b*) the Conference would have an opportunity to formulate a specific action programme with a view to increasing the participation of developing countries in world shipping through the development of their merchant fleet. This question was mentioned in chapter I, and here it will suffice to reiterate the importance of this issue for developing commodity-exporting countries which, at present, do not control this crucial link in the marketing chain. Further, bulk shipping using developing countries' merchant marines could considerably reduce freight costs in commodity export trade which is characterized by a large number of individual exporters. The newly established Arab and Carribbean shipping companies are illustrations of a new trend.

D. Measures in developed countries

67. Throughout this report, the role of developed countries in the restructuring of commodity trade has been emphasized. Reference has already been made to the control of restrictive business practices, support for producers' efforts, etc. There are other areas, however, where active participation and initiative–as opposed to mere control and support—on the part of developed countries is needed. These are areas which are under the direct review of the Governments of those countries and include the organization of their domestic distribution systems as well as their taxation structure. With respect to the former,

[35] See "Co-operation among State trading organizations of Asian developing countries: report prepared at the request of the UNCTAD secretariat by Mr. Basant Raj Bhandari" (TD/B/C.7/17), para. 147 (*d*).

various commodity studies made by the UNCTAD secretariat and national agencies have argued that the substantial costs of advertising, sales promotion, etc., are an important form of inefficiency in the retail distribution of several commodities and tend to inflate retail margins.[36] It would seem that developed countries should pay greater attention to the over-all issues of intermediation in their internal commodity trade, including the promotion of more direct transactions between exporting countries and final consumers in their own countries, with a view to eliminating unnecessary middlemen from marketing operations.[37] The possible role of developed countries' consumer co-operatives should also be examined in an effort to modify the oligopsonistic market structure dominated by a few multinational enterprises.

68. All these efforts by developed countries would increase producers' returns while protecting consumers' interests. A similar result would be obtained by the removal of the discriminatory treatment of developing countries' commodity exports in the taxation structure of developed countries. The issue of import duties, levies and other internal taxes imposed by developed countries on primary commodities, especially those that are not produced at all in such countries, was raised at previous sessions of the Conference.[38] Because the price elasticity of demand for heavily taxed commodities such as coffee, tea, cocoa and bananas is relatively low, the potential export gains of the supplying countries from the removal of the duties are small in comparison with the revenues collected by the developed countries. In its documentation for the third session of the Conference the secretariat therefore concluded that developing exporting countries would gain considerably more from even a modest—say a 20 per cent—transfer to them of the revenue duties collected on tropical crops than they would from the complete abolition of the duties themselves. To avoid an asymmetrical distribution of benefits to individual exporting countries it was also suggested that compensatory transfers might be pooled in a central fund to be administered by all the developing exporting countries concerned. This proposal deserves further consideration. The case for revenue transfer, rather than duty abolition or reduction, is strengthened by the more recent evidence on the small proportion of the landed (before tax) price accruing to exporting countries for most of these commodities. Finally, it should be taken into account that the oligopolistic practices prevailing in these markets might hamper the achievement of lower retail prices through tax reductions and, thus, higher demand for commodity imports from developing countries.

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[36] See TD/B/C.1/162, paras. 126-132; and *Marketing and distribution of tobacco* (United Nations publication, Sales No. E.78.II.D.14), paras. 181-189. See also United States of America, *Food from Farmer to Consumer,* Report of the National Commission on Food Marketing (Washington, D.C., 1966), chap. 12.

[37] As an illustration of feasible initiatives in this field, a new brand of Tanzanian instant coffee produced and marketed with the assistance of the Norwegian Government has been launched on the Norwegian market.

[38] See "Access to markets: report by the UNCTAD secretariat" (TD/115 and Corr.1), chap. VI, in *Proceedings..., Third Session,* vol. II, *Merchandise trade* (United Nations publication, Sales No. E.73.II.D.5).

AGENDA ITEM 11*

DOCUMENT TD/230

Comprehensive measures required to expand and diversify the export trade of developing countries in manufactures and semi-manufactures

Report by the UNCTAD secretariat

[*Original: English*]
[*17 February 1979*]

CONTENTS

ANNEX

* For the agenda, see vol. I, part three, para. 6.

CHAPTER I

*Introduction**

1. During the last few decades significant growth and diversification has taken place in the industrialization of developing countries. Manufactured exports now rank in importance with exports of primary commodities, excluding oil. However, the share of developing countries in world manufacturing output, world trade in manufactures and world consumption of industrial goods has not changed significantly. An increased share is essential to achieve optimal results in the economic development of the developing countries.

2. Since the inception of UNCTAD, its efforts regarding the expansion and diversification of developing countries' exports of manufactures and semi-manufactures have concentrated primarily on the evolution and strengthening of policies designed to improve the access of these products to the markets of developed countries. The need for a more comprehensive strategy in the field of manufactures and semi-manufactures has been apparent for some time. It was in response to this need that the Secretary-General of UNCTAD submitted a report to the Committee on Manufactures at its seventh session.[1] This was followed by a report submitted by the UNCTAD secretariat to the United Nations Conference on Trade and Development at its fourth session[2] dealing with main policy issues in the field of manufactures and semi-manufactures which led to the adoption of Conference resolution 96 (IV). An annex to the present report analysing the implementation of this resolution shows that little progress has been made, particularly by the developed countries, in implementing the provisions of resolution 96 (IV) other than in respect of section III, dealing with restrictive business practices.

3. There are several possible explanations for the failure to achieve fully the objectives of Conference resolution 96 (IV). For example, it is clear that the resolution itself did not go far enough in emphasizing the extent to which adjustments would be necessary within industrial sectors of the developed countries, although this was recognized at the time. The report to the Conference stressed[3] that the commercial and industrial policies of the developed market-economy countries have lacked the long-term perspective wherein measures would be taken to ensure an efficient allocation of domestic resources consonant with improvements in the competitive advantage of the developing countries. Without this the package of measures remained incomplete.

4. In respect of the poor progress in the implementation of the resolution, there are several possible explanations. The economic crisis of the early 1970s has been followed by prolonged recession, with little hope of an early recovery to the growth rates of the previous two decades. The optimism for recovery in 1976 was accompanied by a belief that economic problems would be self-correcting. Throughout this period the developed countries have acted in the belief that it is possible to sacrifice long-term growth for short-term stability, to create unemployment by demand management policies to control inflation and, finally, to achieve balance-of-payments equilibrium and restore employment by use of commercial policies, such as tariffs and import controls.[4] In this latter objective, at least, the Governments of the developed countries have been understandably influenced by industrialists and workers who have been particularly affected by the structural forces released by the growing industrialization and exports of the developing countries. This alliance of business and labour represents a powerful, concentrated, vested-interest group.

5. However, the delay in the recovery has created an inherent conflict between demand management policies to reduce inflation and the use of protectionist policies to maintain high-cost, import-replacing industries. In addition, it is now evident that the deep, structural imbalances in the developed countries constitute a major factor in delaying a possible recovery. There is now greater recognition of the costs associated with the deceleration of growth and the failure to promote structural change, which has always been a part of growth. While adjustments do carry short-run costs, the failure to act has proven even more expensive in terms of continued high unemployment and recession. Also, the costs of the inevitable changes have not been avoided, but postponed and accumulated.

6. Another factor in the limited progress in the implementation of resolution 96 (IV) in this period has been the concentration of trade negotiators on the multilateral trade negotiations. Policy-makers have been reluctant to consider other changes during these negotiations. However, it would appear unlikely that all issues of fundamental importance to the developing countries will be finally resolved in the negotiations. As well as the economic situation and the multilateral trade negotiations, this lack of progress can also be attributed to the lack of a suitable institutional framework within which the implementation of the resolution could be planned, discussed and monitored.

7. In drawing up a set of comprehensive measures to expand and diversify the export trade in manufactures and semi-manufactures by the developing countries, it is essential to continue with efforts to secure greater access for the developing countries to the markets of the developed countries and to complement these with additional proposals designed to restructure world production patterns. To achieve this, substantial changes will be required in the industrial policies of the developed countries. It is unlikely that market forces, limited as they are, will be able to bring about the required structural adjustment. A new and comprehensive strategy is required to

* To the extent that they are relevant to the strategy proposed in this report, references are made to problems and policy recommendations under discussion elsewhere in UNCTAD. For a definitive interpretation of these matters in their proper context, reference should be made to source documents and material.

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

[2] See *Proceedings... Fourth session,* vol. III, *Basic documentation* (United Nations publication, Sales No. E.76.II.D.12), document TD/185.

[3] *Ibid.,* para. 12.

[4] See documents TD/224 and Add.1, reproduced in the present volume.

attain the objectives of expanding the industrial base and improving the export performance of the developing countries, resulting in greater participation of developing countries in world trade in manufactures and semi-manufactures.

CHAPTER II

Basic issues

8. The present pattern of international specialization in the field of manufactures and semi-manufactures is far from conforming to an optimal utilization of world resources. Not only is a large proportion of the industrial production in the developed countries maintained behind the protection of high import duties, import quotas, subsidies and other trade barriers, but the predominance of the developed countries in world manufacturing output and trade in manufactures has also been preserved and promoted through their industrial and technology policies, particularly through transnational corporations which control marketing and distribution channels, their near monopoly of international banking and insurance, and their predominance in world shipping. Both developed and developing countries stand to derive substantial benefits from restructuring the international division of labour in the industrial sector along the lines of their dynamic comparative advantage. From the standpoint of developing countries, a movement towards an optimal pattern of international specialization is not merely a question of a more efficient allocation of world resources but would also serve to accelerate their industrialization process. A larger share in world industrial output and world trade in manufactures involves changes in the structure of these economies through capital formation, increases in productivity and technological progress.

9. In the trade policy with respect to manufactures and semi-manufactures followed by the developing countries during the 1970s there has been a lack of a specifically conscious strategy, except perhaps that of achieving greater access to the markets of the developed countries. Nevertheless, such a strategy could be reconstructed from what has been implicit in their trade negotiations and their broad economic relationship with developed countries in the field of manufactures and semi-manufactures. Developing countries have relied heavily on the developed countries for supply to their industrialization process of the "missing components" which would help them to break bottle-necks or remove obstacles. These missing components consisted mainly of capital goods, foreign exchange, skill, and management. Such an approach provides the basic rationale for aid, technical assistance and private foreign investment.

10. A logical consequence was to make the industrialization process in the developing countries dependent not only on the supply of missing components but also on the markets of the developed countries for their exports of industrial output. It was natural that a sizeable proportion of the industrial output of the developing countries had to be exported to the developed countries to earn foreign exchange for servicing the borrowed capital, purchase of technology, import of industrial raw materials, etc. As a result of this twofold dependence, the industrialization process in the developing countries has depended excessively on the propagation of impulses from the developed countries.

11. In relation to the strategy of trying to secure greater access to the markets of the developed countries, the developing countries have encountered considerable resistance. At the root of this lies the key problem, namely, the question of compatibility of the industrial structures in the developed and developing countries. The industrial development of developing countries, with the consequent search for export outlets in the developed countries, has been seen by the latter as a threat to their industrial interests. In conditions of slow economic growth and large-scale unemployment, the pressures for protection against low-cost imports have resulted in protectionist policies which are selective and discriminatory in nature. They are selective in trying to protect certain industries and lines of production, and they have tended to become discriminatory as protection has been increasingly sought not against all imports but only against imports from developing countries. Trade policies in such a situation are instruments for achieving industrial objectives: quantitative restrictions and tariffs are patently designed to preserve certain industries, while the escalation of tariffs according to the degree of processing inhibits the developing countries from undertaking further processing of raw materials for export and increasing the value added domestically. In the field of tariffs this effective protection is important from the standpoint of developed countries. Non-tariff barriers are also assuming greater importance as tariffs have been reduced and harmonized in several rounds of tariff negotiations, and the introduction of the GSP has also counteracted the effects of tariff escalation to some extent, although there remain important exceptions.

12. Trade policies are only one set of the many instruments used to contain imports from developing countries. The same objective can be, and often is, achieved by various instruments of industrial policies affecting investment, employment, regional growth, research and development and immigration. Industrial policies have developed against the background of rapid economic growth in the industrialized countries from the late 1940s to the early 1970s. In domestic economic policy, they have been refined to give a more direct approach than macro-economic or traditional commercial policies to the problems of structural or locational unemployment. In recent years, new types of commercial policies have been added to industrial policies, thus forming policy packages shaping the level and structure of industry in the developed countries and hence the opportunities for industrial development and exports in the developing countries. One important implication of this development is that concessions in the traditional trade policy field, in particular tariff concessions, can be and have often been negated by the use of other policies.

13. It may be argued that the prevailing economic situation, characterized by recession, inflation, declining or static production and high or even increasing levels of unemployment, does not provide the best time and opportunity to seek or expect greater market access. Irrespective of whether limited progress on the question of access is caused by the lack of political will, or dictated by

the prevailing economic conditions, the fact remains that, in recent years, instead of freer access for developing countries in the field of manufactures and semi-manufactures, there has been an unprecedented growth of protectionist measures. The growth of imports of manufactures from developing countries which has taken place despite these trends is a measure of the extent to which comparative advantage in many lines of production has shifted away from the developed countries.

14. The developed countries have tended to take a defensive position on the question of access rather than putting forward counter-proposals in the field of manufactures based upon their own long-term interests and their perception of the joint interests of developed and developing countries. Such concrete proposals could open up a meaningful dialogue, with the possibility of new and imaginative policies in the field of manufactures and semi-manufactures leading to the resolution of differences between developed and developing countries. Indeed, there is a large measure of identity of interest between developed and developing countries in pursuing welfare gains through trade expansion, security of supplies of semi-processed or processed raw materials, protection of the environment and conservation of scarce resources.

CHAPTER III

Need for a new strategy

A. Need for reform in international economic relations

15. The existing centre-periphery relationship in the field of manufactures and semi-manufactures should be reformed on grounds of efficiency and equity. A reform of the industrial sector and trade in manufactures with a view to reducing the imbalance in the relationship is in the mutual interest of both developed and developing countries. This alone would provide the developed countries with an opportunity to phase out gradually the less efficient lines of manufacturing, giving them an opportunity to restructure their industrial sector. It would open up markets in developing countries with tremendous purchasing potential capable of providing an excellent stimulus to their industrial growth and would intensify their exports of capital goods, technology and services. It could even present opportunities for a substantially enlarged scale of intra-industry specialization, such as has evolved with the great growth of Western European trade in the last 15 years. Success in solving the problems of inflation, recession and unemployment is partly dependent on a changed relationship in the field of manufactures and semi-manufactures between developed and developing countries and action on long-term restructuring of the industrial sector.

16. The need for a new strategy in the field of manufactures and semi-manufactures is reinforced, *inter alia*, by the following considerations:

(*a*) During the last few decades, significant progress has been made by the developing countries in building up a sizeable manufacturing sector. Not only has there taken place an increase in the importance of manufactures as a proportion of GDP, but also exports of manufactures have become an important source of foreign exchange earnings. The over-all share of exports of manufactures of developing countries in their merchandise exports, excluding oil, has risen rapidly and stands at about 40 per cent, making it as important as the primary commodities export sector. However, this development is not evenly spread among developing countries.

(*b*) The larger and the relatively industrialized developing countries enter the 1980s with a vastly improved production structure and less severe transformation problems. To that extent, they now have a greater degree of freedom to adjust their production and trading pattern in line with relevant demand conditions, resource availabilities and comparative advantage. The widely held hypothesis about the conflict between import substitution and export expansion has been disproved by the experience of these countries, which initially industrialized on the basis of import substitution and have now, with a time lag, entered the phase of exporting and have a large industrial base to support and sustain their export trade. Such a link between import substitution and export expansion is particularly strong in metal manufactures, chemicals, electrical and non-electrical machinery, machine tools, etc. These sectors in many developing countries are now capable of satisfying growing domestic demand as well as having increasing capacity for export.

(*c*) Developing countries have exhibited considerable diversification and deepening of the manufacturing sector. The extent of such development undoubtedly varies among countries and at different periods of time, but a definite pattern in the relative shares of individual manufacturing sectors and in their relationship to changes in the degree of industrialization has emerged. This is caused by systematic forces leading towards fairly predictable tendencies in the structure of production as industrialization deepens and income levels rise. As a result, the composition of exports of manufactures has changed substantially and no longer consists of a few labour-intensive goods. Some developing countries are now exporters of consumer durables, capital goods, ships, passenger cars, chemicals, etc.

(*d*) With rapid industrialization, developing countries have emerged as substantial importers of capital goods, industrial inputs and technology from developed countries. Their demand for such goods is limited by the growth of their foreign-exchange earnings which, in turn, is heavily dependent on their ability to export. In many cases such imports enter developing countries duty-free or with nominal duties. In this sense, the developing countries are already providing reciprocity to developed countries for trade liberalization of the export items in which the developing countries are interested. In some developing countries, especially those enjoying a balance-of-payments surplus, import duties are low even for certain consumer goods. These countries have emerged as major markets for exports of consumer goods, capital goods and technology from developed countries.

(*e*) The growth of exports of manufactures of developing countries has taken place during the last 15 years in the absence of any specific policy instrument by the developed countries, with the notable exception of the GSP. This growth could, therefore, be ascribed to industrialization, helped by the relatively liberal trade regimes prevailing up to the 1970s and the expansion of the world economy.

(*f*) The assumption that liberal trade regimes would govern the conduct of international trade in manufactures in which a differential and more favourable treatment would be accorded to the developing countries has received a rude shock from the actual developments in the multilateral trade negotiations, which are about to end with the likelihood of no appreciable gains for the developing countries.

(*g*) Apart from their disappointing experience in the multilateral trade negotiations, the developing countries have to reckon with the growing protectionist sentiment among the erstwhile "free trading" countries. Import restrictions are no longer taken as aberrations from the free trade dictum, and in both theory and practice there is a shift in favour of "organized free trade". A practical approach might be to determine whether international trade in manufactures, which has become more and more "managed", could be "managed" in favour of developing countries or could at least take their interests fully into account. Nevertheless, protectionism is only a symptom of a more serious malaise, i.e. long-run structural disequilibrium, for which quite a different set of policies is required.

17. The developing countries are legitimately concerned by the question of whether the recovery in the developed countries will be of sufficient strength to serve as an engine of growth for economies, especially the manufacturing sectors, of the developing countries. Reservations about the strength of recovery emanate from the fact that the present recession is not merely a business cycle downturn but a manifestation of a much deeper structural imbalance. International action has, therefore, to be directed to redressing this imbalance rather than to the problem of recession.

B. Considerations in the formulation of a new strategy

18. Since the basic problem in the field of manufactures and semi-manufactures is the slow pace of structural adjustment in the economies of developed countries, a major restructuring of world trade in manufactures requires changes in the industrial policies of the developed market-economy countries, duly supported by appropriate action with regard to transnational corporations, which are a dominant factor in the world production, marketing and distribution of manufactures and semi-manufactures. The major thrust of such policies should be, on the one hand, to facilitate the disengagement of resources in the developed countries over an agreed transitional period from those lines of manufacturing in which they have lost, or are likely to lose, their competitive edge to developing countries and, on the other hand, to augment the supply capability of developing countries in those areas of manufactures and semi-manufactures where they have comparative advantage to enable them to achieve a larger share in world trade in manufacturers and semi-manufactures. In the supply capability of developing countries, special emphasis would need to be given to the transfer of technology to developing countries on equitable terms, the development of the technological base of developing countries and the adaptation and dissemination of technology in developing countries.

19. Rapid industrialization and export growth of manufactures of some developing countries have been accelerated by the integration of such countries in the economies of developed countries through aid, investment, technology and access to markets. To a large extent this was brought about through the channel of transnational corporations. It is an open question whether such examples are a special case determined by size, location, past links with metropolitan economic structure, etc. However, the model of a purely export-oriented industrialization cannot easily be emulated by most of the developing countries. Recent developments have demonstrated two serious weaknesses of such a model. First, such a close link with the developed economies also means that, in the event of a recession like that of 1974-1975, the worst hit would be the suppliers most dependent on these markets. Second, in the event of trade restrictions, dominant suppliers with extremely limited domestic markets have no bargaining power and must accept the fate of "captive suppliers".

20. Neither complete isolation nor wide-open integration based on one-way dependency is an ideal solution from the developing countries' standpoint. The question, therefore, is: how can developing countries derive the benefits of trade, transfer of technology and other economic relationships with the developed nations without simultaneously exposing themselves to their detrimental effects? In the long run the policies which will be decisive for the future prospects of developing countries in the field of manufactures and semi-manufactures cannot just be market-access or exchange-rate policies but have to range over the whole field of industrial development in both developed and developing countries.

21. The major restructuring of world trade in manufactures and semi-manufactures should be implemented through a strategy consisting of a target share for developing countries in world trade in manufactures and semi-manufactures, and appropriate policies to achieve this target. The main emphasis of such policies should be changes in the industrial policies of the developed market-economy countries, supplemented by measures to increase the opportunities for intra-industry trade, particularly by means of industrial collaboration arrangements, measures to remove the supply constraints in the developing countries, policies to control the operations of transnational corporations and a continuation of efforts to secure greater access for the manufactured exports of the developing countries to the markets of the developed countries. The developing countries also need to take greater advantage of the potential for expanding trade and co-operation among themselves. Similarly, there is scope for further trade expansion among countries with different economic and social systems. These policy proposals would form a comprehensive set of measures to expand and diversify the export trade of developing countries in manufactures and semi-manufactures.

CHAPTER IV

A comprehensive set of measures to expand and diversify the export trade of developing countries in manufactures and semi-manufactures

A. A target for the developing countries' share in world trade in manufactures and semi-manufactures

22. To redress the existing imbalance in the world trade in manufactures there is a need to establish a target for the share of developing countries in the world trade in manufactures and semi-manufactures for the year 2000. Such a target should be fully consistent with the Lima target for industrial development of developing countries.[5] The target should be in the nature of a perspective plan providing for the partial fulfilment of the target in each successive five-year period, increasing the share of developing countries in world trade in manufactures to the maximum extent possible and to at least 30 per cent of total world trade in manufactures by the year 2000. Furthermore, the target should be disaggregated as far as possible on a sectoral and regional basis.

23. Between 1960 and 1974 the contribution of manufactured exports from developing countries to the increase in apparent consumption of manufactures (demand for manufactures) in the main developed market-economy countries was of the order of 2.5 per cent. On the assumption that apparent consumption of manufactures attains an annual rate of increase of 4 per cent in real terms between 1973-1974 and 2000 in the developed market-economy countries and that the percentage share of imports of manufactures from the developing countries (in apparent consumption of manufactures in the developed market-economy countries) increases twice as fast in the future as in the recent past, then volume growth of developing countries' exports of manufactures to the developed market-economy countries becomes 7.5 per cent per annum. This growth rate of 7.5 per cent in real terms for developing countries' exports of manufactures to the developed market-economy countries can be shown to be the required minimum in order to reach the Lima target for industrial production.[6]

24. That target for industrial production implies a higher growth of manufacturing output in developing countries than in developed countries, and a higher over-all rate of economic growth in developing than in developed countries. Hence, developing countries themselves in the future constitute the most dynamic market for manufactures. To be consistent with the target, the growth of their intra-trade in manufactures needs to reach an annual rate of not less than 10 per cent for the remainder of the century, and possibly beyond.

25. Attainment of this target share of developing countries in world trade in manufactures is by no means an easy task and will involve a sustained and concerted effort by developed and developing countries. However, it should not only give a sense of direction to the developing countries' efforts in this respect but, more importantly, provide a basis for an objective and critical examination of the present industrialization and trade policies of the developed countries. Appropriate changes may then be formulated to accelerate the greater participation of developing countries in world trade in manufactures and semi-manufactures.

B. Industrial policies of the developed market-economy countries

26. A major restructuring of production and trade is imperative in the interests of efficiency and equity. However, the governments of the developed market-economy countries—even those which are philosophically committed to non-intervention—use a number of policy instruments[7] to influence the course of their industries, despite their claimed reliance on the market mechanism. Many of these industrial policies have been deliberately used as protectionist devices. They do not have to conform to international trade rules and are, therefore, not subject to international scrutiny and supervision.

27. Industrial policies have usually been formulated with largely domestic considerations to the fore and are regarded as contributory to the aims of national economic and social policies. More recently, they have often been used by the developed countries to inhibit rather than to promote changes in their industrial structure. Governments have resorted to greater use of these policies because they constitute more direct instruments than macro-economic policies and even commercial policies for treating unemployment and underemployment of resources, particularly of labour, caused by rapid structural change, often concentrated in particular regions. However, the cost of such policies to the developed market-economy countries themselves has been a reduction in potential income, with the danger of further deterioration if these countries become locked into a protectionist spiral.

28. From the point of view of the developing countries, the industrial policies of the developed market-economy countries have affected their development potential and the rate and direction of their industrialization to a considerable extent. These policies often prevent or hinder manufacturing exports from developing countries by diverting resources into areas of production where the developed market-economy countries do not have or are losing comparative advantage or by retaining them there. Given the cost of such policies to the developed market-economy countries themselves, there is a community of interest in using these policies to promote a more efficient allocation of the world's resources by giving impetus to greater intra-industry specialization and the orderly transfer of certain lines of production to the developing countries.

[5] 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 (ID/CONF.3/31, chap. IV), para. 28.

[6] See "The dimensions of the restructuring of world manufacturing output and trade required in order to reach the Lima target: report by the UNCTAD secretariat" (TD/185/Supp.1), reproduced in *Restructuring of world industry: new dimensions for trade co-operation* (United Nations publication, Sales No. E.77.II.D.7).

[7] OECD, *The Aims and Instruments of Industrial Policy: A Comparative Study* (Paris, 1975); and UNCTAD, *The industrial policies of the developed market economy countries and their effect on the exports of manufactures and semi-manufactures from the developing countries* (United Nations publication, Sales No. E.79.II.D.13).

29. Substantial positive action by the developed market-economy countries to promote the transfer of lines of production in which they have lost comparative advantage to the developing countries is necessary for the creation of a new international economic order. The Governments of these countries need to take cognizance of the industrial objectives of the developing countries, and deliberately implement the necessary outward-looking policies. Removal of selective interventionist industrial policies which discriminate against the exports of the developing countries and inhibit the development of industries and lines of production in which they have comparative advantage, together with the adoption of adjustment assistance programmes, are an essential part of this process; but they do not go far enough. Ways must be found to facilitate changes in the industrial structures of the developing and the developed countries so that they may both benefit from better use of the world's resources.

30. Across the spectrum of industrial policies used by the developed market-economy countries the common feature of particular concern to the developing countries is misuse of selectivity in the application of supporting measures. Even in apparently domestically-oriented policies, selective support or bias in favour of certain industries is just as protectionist or trade-distorting as any commercial policy instrument. Furthermore, it is apparent that such biases—often prompted by severe unemployment problems—are discriminatory, as they frequently favour industries producing goods of export interest to the developing countries. Application of general measures to promote growth would not involve biases against the kinds of industries and areas of production where they have the greatest advantage. This is not to imply that selectivity in itself is undesirable: in the application of adjustment assistance to industries, regions or individuals and in the correction of past policies, selective action would be the most appropriate, cost-effective approach, but the fact remains that, in most cases, selectivity has operated against the interests of the developing countries.

31. It is generally recognized that, in order to promote employment, the developed market-economy countries should increase the rate of growth of demand to the greatest extent that is compatible with their balance-of-payments positions and control of their rates of inflation. In this respect, removal of or change in the use of selective instruments may even be a prerequisite for sustained growth without inflation. The relationship between structural imbalance and inflation deserves particular attention, as any attempt to stimulate aggregate demand or production without regard for structural rigidities and production bottle-necks would inevitably lead to an increase in the rate of inflation.

32. Structural rigidities in the labour market in wages, between job-types, etc., and labour unrest in many countries, reinforced by the general and selective use of domestic investment incentives, have favoured capital-intensive investment in some areas of production beyond what is appropriate even for the developed countries. Together with various demographic factors, these rigidities and policies have caused labour market imbalances in various sectors and have substantially contributed to increases in the general level of unemployment. An inevitable consequence has been increased pressure for protectionism from the labour movement. Wide-ranging action, therefore, needs to be taken to remove rigidities in the labour market and to increase geographic mobility and mobility between categories of employment before any general stimuli to investment are applied. Again, distortions created by different levels of investment incentives for different types of industry need to be eliminated or directed to accelerating the inevitable structural changes caused by shifts in comparative advantage. Removal of such rigidities and distortions could reduce labour market imbalances, lifting employment levels and reducing protectionist pressures.

33. Investment incentives should be used by developed countries to improve the adaptability of their economies and to promote domestic restructuring and international redeployment of resources in accordance with the changing pattern of international division of labour. First, incentives used by the developed countries to stimulate aggregate production should only be used in the absence of structural rigidities, which call for quite a different approach. Second, declining industries or lines of production which are no longer internationally competitive owing to high production costs, technological obsolescence, changes in consumer preferences or other factors should not be maintained artifially through aid granted under regional or other types of investment incentive schemes, i.e. the biases and discrimination in the application of incentives and supporting commercial policies should be reduced. In some cases local governments or similar authorities which apply large subsidies or substantial tax relief in a selective manner may need to be prevailed upon to take similar action. Third, where investment incentives in the developed countries create biases in favour of domestic investment and against investment in developing countries, these biases should be eliminated. Further, the developed countries should implement incentives which favour investment in developing countries in order to overcome inhibitions against such investment.

34. General and selective export incentives, subsidies and preferential export credit applied by developed countries adversely affect the competitive exports and domestic production of developing countries. In recognition of the harmful effects which export incentives and subsidies used by the developed countries have on developing country exports, the developed countries should discontinue the use of export incentives on products of export interest to developing countries. Also, greater recognition needs to be given to the role of export incentives in the industrial transformation of the developing countries in the transition to more open, export-oriented economies, with a reduced aid dependency. Any international arrangement in this field should recognize the right of developing countries to apply export incentives as part of their development strategy in a general fashion without any qualifications or differentiations as to particular countries' industries or industrial sectors. Developing countries should avoid competition among themselves in providing such incentives, as this is likely to lead to a transfer of resources from them to the developed countries without necessarily increasing their over-all level of exports. Likewise, it should be stipulated that there should be no countervailing action by the developed countries in fields where the comparative economic advantage is in favour of the developing countries. Greater precision and clarity would need to be given to the

concept of material injury as one of the essential preconditions for countervailing action.

35. The policy prescriptions involve greater co-ordination of national policies at the micro-level and between macro-economic and micro-economic policies, and efforts to ensure complementarity of policies internationally. Despite considerable co-ordinating machinery in most developed market-economy countries, there remain substantial policy conflicts within micro-economic policies and between the macro-policies and the micro-policies. The result has been lost growth in national income and employment opportunities, and pressure for assistance from politically sensitive sectors. Thus, the selectivity or biases in favour of politically sensitive areas have caused losses in welfare for both the developing and the developed market-economy countries. Proper co-ordination needs to take fully into account shifts in comparative advantage and the social and economic interests of the developing countries.

36. The most positive and useful step that the Governments of the developed market-economy countries could take would be the implementation of genuine structural adjustment policies. There is a great need to integrate distinct and identifiable adjustment assistance measures into national external economic policy; to introduce a dynamic element into such programmes to make them more responsive to changing conditions and to promote restructuring more effectively; to use an anticipatory approach, aided by monitoring of key indicators; to have specific eligibility criteria; to have national structural adjustment agencies; and to have co-operation between developed countries on industrial readjustment to avoid trade diversion effects. As part of the adjustment process, investment incentives might be increasingly used to encourage research and development, in particular with a view to creating new products and leading to a new generation of industries upon which continued growth can be based. Thus, depending on the circumstances of the individual case, greater emphasis on the promotion of high technology industries could be called for, rather than the perpetuation of existing industries or lines of production. Finally, since social considerations and fear of social disruption frequently retard the tempo of industrial progress, use might be made of employment-related incentives such as income maintenance programmes, to smooth the way for the sectoral changes that are needed. Aid might be provided to encourage in particular retraining and social reintegration of workers made redundant in declining sectors, although care must be taken that education and training policies are themselves attuned to changing market conditions.

37. Removal of bias and discrimination in the industrial policies of the developed market-economy countries which affect both industrial production and the exports of the developing countries is a prerequisite for the more efficient allocation of the world's resources, which would benefit developed and developing countries alike. However, it is unlikely that the corrections to the direction of industrial policy outlined above would alone be sufficient to achieve the new international division of labour. Further positive action is needed to promote greater intra-industry specialization between developed and developing countries to counter the inherent uncertainties of trade, immobility of factors of production and the pressures for protection which build up when exports from developing countries are predominantly in final products. Intra-industry specialization and a particular case, industrial collaboration arrangements, are discussed further below. As mentioned earlier, the governments of the developed market-economy countries can and do use a number of policy instruments to influence the course of their industries. Such influence should be used to give impetus to greater intra-industry specialization and the orderly transfer of areas of industrial production to the developing countries.

C. Intra-industry specialization

38. There is a need to evolve, within the trade in manufactures between developed and developing countries, a system based on mutuality of interest and capable of positive direction. Such a system might be based on intra-industry specialization, which has been the driving force in trade in manufactures among the countries of Western Europe as well as a predominant feature of trade between Western Europe and socialist countries in the last 15 years. It is most common in industries like engineering, where there are economies of scale and considerable scope for product differentiation. This is significant because engineering products form the main growth sector in the exports by the developing countries to the developed market-economy countries. Even for products of everyday consumption, differentiation between low-cost, mass-produced articles and high-cost fashion articles permits intra-industry specialization and trade.

39. Intra-industry specialization could become an important factor in bringing about compatibility between the dynamics of industrial growth in developed and developing countries. It points the way in which mutually beneficial trade expansion can take place following the reduction of trade barriers or the reversal of those industrial policies which are harmful to the trade of the developing countries. It also shows how developing countries can participate in and contribute to the growth of world trade, without being perpetually locked into a pattern of labour-intensive industrial development and exports, which often provokes protectionist action by the developed countries.

40. Trade in components, parts and processes is a major feature of trade among developed countries and there is no reason why this type of trade could not be substantially expanded between developed and developing countries if evolved within the larger context of industrial co-operation and with appropriate safeguards for the developing countries. The developed market-economy countries are likely to co-operate, provided they come to realize that such arrangements are likely to create more jobs than they displace—above all, jobs for better trained members of a new labour force.

41. Intra-industry trade between developed and developing countries may take many forms. Among them are:

(*a*) Exporting of components from the industrial country to the developing country where the product is fabricated or assembled for return to the developed country; the returned product may be complete, ready for sale in the developed country market or for export abroad, or it may require further processing in the developed country before sale as a finished product;

(*b*) Contracting by the developed country firm to buy component parts from developing countries for incorporation into the final products in the developed country;

(*c*) Contracting by developing country or third country firms to buy process technology and/or component parts in other developing countries and/or the developed country, for sale in the developed country or elsewhere;

(*d*) The manufacture of products by developing or developed countries, which either compete in markets characterized by product differentiation or supplement each other by specializing in particular lines or ranges of production.

42. To give encouragement to this type of trade and the industrialization on which it is based it is clearly essential to improve further the supply capabilities of the developing countries and to use means such as industrial collaboration arrangements to assure market access. Another useful stimulus would be given by "value added" tariffs which some developed countries have already introduced. With these, import duties are levied only on the foreign value added when domestic materials are sent abroad for processing and subsequently reimported. Arrangements should be explored which would be beneficial to both developed and developing countries. One form of such co-operation could be industrial collaboration arrangements.

D. Industrial collaboration arrangements

43. Industrial collaboration arrangements can be entered into at the enterprise level or the governmental level or both. They can be concluded, *inter alia*, between developed market-economy countries and developing countries, between socialist countries and developing countries, or on a tripartite basis. Industrial collaboration arrangements can take various forms, such as co-production and specialization agreements, joint ventures, licensing and subcontracting agreements, and joint tendering and marketing. They cover medium-term or longer-term economic relationships at the level of enterprises or organizations in different countries, involving more than the mere sale or purchase of industrial goods and services. Such arrangements provide for a set of complementary or reciprocally matching undertakings which may include a variety of measures, ranging from production and trade to financing and technical co-operation.

44. In 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.

45. An important role in enhancing industrial collaboration arrangements can also be played by developing countries with substantial surpluses of foreign exchange. 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 or socialist countries), under which they would be the principal suppliers of finance. Industrial collaboration arrangements with developing countries, either on a tripartite or on a bipartite basis, can further serve to facilitate the processing in other developing countries of their domestically produced commodities, as well as the production of petroleum derivatives.

46. In 1978 the Trade and Development Board of UNCTAD and the Industrial Development Board of UNIDO approved the proposal of the two secretariats concerning the establishment of an *ad hoc* joint UNCTAD/UNIDO Group of Experts. According to Trade and Development Board decision 172 (XVIII) of 17 September 1978, the Group's terms of reference are:

> to undertake an examination, . . . of the trade and trade-related aspects of industrial collaboration which would be of benefit to developing countries in relation to international co-operation in the industrial development of developing countries. The experts shall take into account current practices in enterprise-to-enterprise arrangements as they concern trade and trade-related aspects of international co-operation on the industrial development of developing countries. They will also bear in mind the role of governments in supporting such . . . arrangements, including the possible role of intergovernmental and other framework agreements or arrangements for promoting industrial collaboration, bilaterally, trilaterally or multilaterally . . . .

Such collaboration between UNCTAD and UNIDO is essential in view of the relationship between trade and industrialization policies.

E. Supply constraints

47. Preoccupation with market access has led to relatively little emphasis being placed on policies to overcome the various supply constraints faced by developing countries as exporters of manufactures and semi-manufactures. The focus of attention in the present context should be on what these constraints are and in what way the supply capacity of developing countries to export manufactures and semi-manufactures could be increased. It may be useful to deal with the question of supply constraints under the broad headings of processing, technological base of developing countries, participation in the dynamic sectors of world trade in manufactures, marketing and distribution, financial and commercial infrastructure for exports. In most of these matters the operations of the transnational corporations are important, and are further discussed in a later section.

1. *Processing*[8]

48. While encountering serious difficulties in establishing industries based on their resources, the developing countries sustain such industries in the developed countries with their exports of unprocessed raw materials. The developing countries are hampered in their efforts to move into downstream processing of their exports of primary products by a variety of factors, mainly the following:

(*a*) The nominal tariff rates in the developed countries increase with the degree of processing, providing very high rates of effective protection for developed countries' early-stage processing industries. Such a tariff structure in the developed countries works as a strong deterrent to the processing of raw materials in developing countries;

(*b*) The structural characteristics of most raw-material industries, and especially the degree of vertical integration prevalent in them—from exploration through extraction concentration, shipping, smelting, refining and fabrication—constitute an important impediment to new entrants and especially to the establishment of independent production;

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[8] See document TD/229/Supp.2, chap. II, reproduced in the present volume.

(*c*) The transnational corporations have traditionally dominated the raw-materials trade and restrict imports of processed goods from developing countries through cartelization or other restrictive business practices.

49. The location of processing activities depends on a great number of technical and economic factors of varying importance for the different crude materials. When processing involves a large reduction in weight and bulk it is most economically located near the raw material source. The present location of processing activities is not governed in many cases by technical and economic criteria, with the result that the developing countries continue to export a very substantial part of their natural resources in unprocessed or only slightly processed form. On the other hand, in the developed countries such processing activities are often continued although changes in transport and energy economics have rendered them uncompetitive, and they can survive only by protective and assistance measures. A fresh look at the question of the economics of location of industries is essential to promote more processing of raw materials in developing countries.

2. *Technology*[9]

50. Policies related to overcoming supply constraints in developing countries have to include measures relating to the nature of the technology transferred, the terms on which it is transferred, the question of adaptation of technology and the development of the technological base of developing countries. The development of a viable technological capability in developing countries is a prerequisite for rapid industrialization and greater participation of these countries in world trade in manufactures and semi-manufactures. The developing countries need to acquire, adapt, generate and use technology to meet their needs in industrial sectors which have emerged as being of particular interest to them, such as fertilizers, pharmaceuticals, petrochemicals, electronics and machinery. Hence the need for (*a*) restructuring of the existing legal and juridical environment for the transfer of technology, i.e. the revision of the industrial property system and the establishment of a code of conduct on transfer of technology; (*b*) strengthening of the technological capacity of developing countries with specific programme components that include the establishment of national technology policy and plans, the strengthening of national institutions for their implementation, and the establishment of regional centres for transfer and development of technology and of sectoral centres for co-operation among developing countries.

3. *Dynamic sectors of world trade in manufactures*

51. The participation of developing countries in world trade in manufactures has been largely in labour-intensive and resource-oriented industries. Although this situation has changed in the recent past, there seems to be a need to provide a greater share to the developing countries in the sectors where world demand is expanding. In many cases this involves building new capacities or expanding existing capacities in the developing countries. High optimum size of plants may deter some developing countries from establishing industry where they enjoy a clear comparative advantage. In the field of petrochemical industry, for instance, where raw material accounts for 60 per cent of the cost of production, energy-rich developing countries are deterred from establishing industries because their domestic market is not large enough to absorb the output of an optimum size plant. In such cases the countries supplying the machinery, often at exorbitant cost, might, among other possibilities, enter buying-back arrangements through which a part of the output is assured of purchase by the country supplying the machinery and is distributed through its normal marketing channels.

52. In recent years certain developing countries have made efforts to diversify their exports of manufactures with the addition of a range of electronic products, precision instruments, household equipment, machinery, etc. These countries are deterred in their export efforts by the structure of the markets for such products, the absence of their own channels of marketing and distribution and of their own after-sales service facilities. Deliveries of products from the metal-using, chemical, paper and rubber industries to the developed market-economy countries still represent a very small proportion of demand in the latter group of countries, ranging from 0.2 per cent in the case of road motor vehicles and rubber products to 1.8 per cent in the case of chemicals. Increased imports of these products from developing countries, therefore, could be absorbed easily by the developed market-economy countries.

4. *Marketing and distribution*

53. One of the principal aspects on the supply side which developing countries have to take into account in their efforts to expand and diversify their exports of manufactured products, in particular consumer goods, is the marketing and distribution factor. This is an area where supply and demand considerations overlap. Marketing strategies are oriented primarily towards segmenting the market for a particular product through, *inter alia*, product quality, packaging and product differentiation, development of trade marks and brand names, advertising, promotion, after-sales services, control over information, etc. Most of these activities, however, are generally skill-intensive and involve high overhead expenses with substantial economies of scale. Moreover, a successful marketing strategy involves the development of extensive information networks, establishment of trading branches of subsidiaries in principal foreign markets, and wide use of trade marks and brand names, which can be accomplished only after a certain volume of exports has been reached. In this context, national firms of developing countries tend to be at a disadvantage with regard to enterprises of developed countries.[10] Experience has shown that national firms often have difficulty in exporting to distant markets, particularly in the case of those products for which product differentiation, design and changes in consumer tastes are important.

5. *Financial and commercial infrastructure*

54. The developing countries face severe disadvantages compared with the developed countries in financing their industrial exports and, hence, in the industrialization process itself. Schemes for providing finance for industrial

[9] See document TD/237, reproduced in the present volume.

[10] For a more extensive discussion of this matter, see paras. 61-62 on policies with regard to transnational corporations in the field of marketing and distribution.

exports of developing countries have to offer practicable solutions to three main issues involved: (i) assurance of easily available financing; (ii) competitive low-cost financing, (iii) protection against foreign trade risks. The design and implementation of suitable measures to achieve these objectives have to be considered in relation to domestic as well as external sources of finance:

(*a*) The implementation or strengthening of government-sponsored export financing and export credit insurance schemes in the developing countries would assist the commercial banking sector in providing finance for exporting manufacturing industries in adequate measure and at reasonable cost. The developed countries should render financial and technical assistance in the establishment and operation of suitable schemes;

(*b*) Export credit insurance facilities should also be established at regional level to provide protection against foreign trade risks by offering direct insurance to exporters in developing countries without national schemes and reinsurance to existing national institutions;

(*c*) Effective measures need to be adopted to improve the access of the developing countries and their industries to external capital markets, in particular the Eurocurrency markets and foreign national and international bond markets. Consideration may also be given to setting up a new international industrial financial institution to assist the flow of funds for the industrial development of developing countries;[11]

(*d*) A multinational facility may be established to enable developing countries exporting industrial goods on credit to refinance the credit in external capital markets and, thus, realize immediately the foreign-exchange earnings. Proposals include a multinational export credit guarantee facility to be sponsored, *inter alia*, by international and regional financial institutions and regional development banks. This proposal has been under technical examination in UNCTAD for a number of years. It will be further considered by the Trade and Development Board at its tenth special session.[12]

F. Policies with regard to transnational corporations

1. *General*

55. Emphasizing the restructuring of world trade in manufactures through a corresponding restructuring of world industrial production inevitably calls for well-conceived policies with regard to transnational corporations. Transnational corporations play a determining role in the existing world trade and industrialization structures. Apart from accounting for a large proportion of industrial production, such corporations are major channels for the transfer of technology and for the provision of investment capital to developing countries. They also account for a substantial part of the world's imports and exports. Because of the dominant market power which they hold in both developed and developing country markets, they are able to use a variety of techniques and practices which limit the actual and potential benefits to developing countries from activities undertaken in their territories. For this reason, every effort must be made to regulate their activities, particularly their use of restrictive business practices, in order to ensure that their contribution to the developing countries' trade and development is maximized. Some form of countervailing power needs to be developed to enable the developing countries to increase their negotiating power in import and export transactions and reduce the market dominance of the transnational corporations.

56. The available evidence indicates that the bulk of the imports and exports of developing countries, especially those of manufactured goods, is channelled through enterprises of developed countries, in particular transnational corporations. Such enterprises are principally of two types, which are not mutually exclusive: those which are engaged to a greater or lesser extent in productive activities in developing countries, and those which are engaged primarily in trading activities. In the case of the former, their trading activities frequently cover both primary and manufactured goods and to an important extent this is a result of the vertically integrated nature of their activities at national and international levels. Moreover, most of the large trading enterprises of developed countries also engage in the import and export of a wide range of primary and manufactured products.

57. A crucial aspect of such trade is the large proportion which occurs on an intra-firm or related-party basis. This has important implications for developing countries since the trade flows in question are not transacted in an open market, so that the scope for price manipulation is far greater than would otherwise be the case. For instance, in 1977, of total United States imports from developing countries, 43 per cent involved transactions where the importing enterprise in the United States had a 5 per cent or more common equity interest with the selling enterprise in the developing country. In respect of new manufactured exports from developing countries, the percentage share was much higher: in the case of fertilizers, 75 per cent; aluminium products, almost 80 per cent; electric power machinery and switch gear, 80 per cent; and other electric machinery and apparatus, 87 per cent. Moreover, the proportion of related-party trade to total United States imports has significantly increased over recent years.

58. It is desirable to encourage greater economic self-reliance in the developing countries, while seeking to maximize the contribution of the transnational corporations to their trade and development. Such policies 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 involves a close, interdependent relationship between countries, and governmental and corporate action in this area invariably has effects which reach out beyond national frontiers.

59. As regards acquisitions, suitable controls should be instituted to ensure that where they occur they are likely to

[11] As already noted in Conference resolution 96 (IV), sect. II.A, para. 3 (*d*).

[12] See resolution 15 (VIII) of the Committee on Invisibles and Financing related to Trade of 3 November 1978. See also the relevant reports of the UNCTAD secretariat: *Official Records of the Trade and Development Board, Seventeenth Session (first part), Annexes*, agenda item 5, document TD/B/655; and "An export credit guarantee facility: further examination of technical issues" (TD/B/C.3/147).

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. They should also ensure that there does not result any unnecessary "denationalization" of efficient indigenous firms capable of providing countervailing power. In addition, greater attention must be paid to the effects of acquisition, mergers and takeovers 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 appropriate authorities to ensure that prices are reasonable and do not adversely affect the trade and development interests of developing countries.

60. Fiscal and financial incentives granted to transnational corporations should, in principle, be limited in scope and duration, so as to avoid wasteful use of existing and potential resources. Accordingly, action should 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 extent possible, be minimized and every attempt made at the regional and subregional levels to harmonize such policies, taking full cognizance of differing levels of development.

2. *Marketing and distribution*

Policies for increasing the participation of developing countries in marketing and distribution

61. Measures for increasing the participation of developing countries in marketing and distribution are basically designed to give them effective market power and greater economic independence so that they may obtain the benefits of lower-cost imports and exercise greater control over their own exports. A broad range of measures can be envisaged; the appropriate choice, however, will depend upon a number of factors, such as the value, volume and range of products presently traded or potentially tradeable, the range of markets to and from which exports and imports are made, the size and structure of the national market, the degree of industrialization of the country, and experience in marketing and distribution activities.

62. The measures concern:

(*a*) The establishment, or promotion of the establishment, at national levels of trading houses. In order to be able to secure new markets for exports and to achieve higher prices for exports and lower prices for imports, it is necessary that trading houses so established engage, to the extent possible, in a range of both import and export transactions. In the case of many of the smaller developing countries, combining import needs and exports of several such developing countries may be the only way for trading houses to obtain sufficient market power; it is only in such ways that the trading houses are likely to possess the necessary leverage and financial strength to become viable alternative trading channels. In promoting new exports, in particular of products characterized by changeable or volatile market patterns, it may, however, be desirable for the trading houses to seek the co-operation of trading companies of developed countries;

(*b*) The establishment by enterprises of developing countries of their own marketing and distribution channels in principal foreign markets. Such action is likely to be practicable only in the case of the more industrially advanced among the developing countries and where the volume of their exports of particular products is sufficient for them to establish a specific presence in a foreign market. In this context, attention should be given to the promotion of their own trade marks on brand names to establish consumer acceptance for their products.

Policies regarding the mechanism used by transnational corporations to control marketing and distribution

63. If world trading structures are to provide for greater participation by developing countries and greater benefits from trade than at present, then it is necessary to have strengthened and effective controls over restrictive business practices adversely affecting their imports and exports. Since such practices originate with enterprises located not only in developing countries, but more importantly in developed countries, a prerequisite of effective control is convergent and complementary action at national, regional and international levels. A first step in this direction will be the successful completion of the forthcoming negotiations with the adoption of a set of multilaterally agreed equitable principles and rules for the control of restrictive business practices adversely affecting international trade, in particular that of developing countries, and the economic development of the developing countries, and the subsequent implementation of the principles and rules at national and regional levels.

64. In developed countries, effective control is required, in particular, with respect to:

(*a*) National and international trade cartels of enterprises of their countries which seek, among other things, to divide up import markets of developing countries, to set prices higher than would otherwise be possible for products imported by developing countries, and to prevent newcomers from entering such trade;

(*b*) Territorial market and product allocation arrangements amongst the constituent entities of a transnational corporation which adversely affect trade flows of developing countries and the prices received or paid for exports and imports;

(*c*) The exercise of dominant market power with regard to the marketing and distribution of exports or imports, in particular that which results in refusal to buy or to sell on customary commercial terms; restrictions on where or to whom or in what form or quantities goods purchased can be resold or exported; and the making of the supply or purchase of particular products dependent upon other products being supplied or purchased;

(*d*) Acquisitions and mergers of a horizontal, vertical or conglomerate nature which tend to foreclose import opportunities from developing countries or reduce competition in respect of exports;

(*e*) Use of trade marks by their owners, especially transnational corporations, to prevent importation of products originating with their licensees, including subsidiaries in developing countries where the products in question have been legitimately marked with a trade mark identical or similar to the trade mark protected in the importing country;

(*f*) Use of trade marks to maintain market allocation arrangements, to restrict sale or resale, to tie purchases of other products, and to fix prices.

65. In developing countries effective control is required with respect to:

(*a*) Territorial and product market allocation arrangements of transnational corporations which prevent or limit exports of subsidiaries in their countries;

(*b*) The prices received or paid for exports or imports effected on an intra-firm or related-party basis;

(*c*) Predatory, discriminatory or excessive pricing of imports;

(*d*) Mergers and take-overs of enterprises in their countries, especially those which are likely to result in less competition in respect of the supply of imports or in the elimination of domestic enterprises competing with imported supplies;

(*e*) The exercise of dominant market power in their markets which results in restrictions on where, to whom and in what form or quantities goods purchased can be resold or exported and the making of the purchase or supply of particular products dependent upon other products being purchased or supplied or to restrict the manufacture or purchase of competing or other products;

(*f*) Use of trade marks to maintain market allocation arrangements, to restrict sales or resale, to tie purchases of other products and to fix prices.

G. Access to markets for exports of manufactures and semi-manufactures of the developing countries

66. The approach outlined so far would solve some of the problems of access. It needs to be realized, however, that these solutions are of a long-term nature and would not eliminate or reduce the burden of prevailing tariff and non-tariff barriers on the developing countries in the short run. Immediate policy action in the traditional framework is, therefore, also essential for eliminating or reducing these barriers. In fact, increased access now, without waiting for the long-run changes, is a necessary, though not a sufficient condition for structural adjustments. The need for urgent action on access stems from the fact that the developing countries have export capacity in certain lines of production, and limited access to developed countries' markets is causing "production disruption" in the developing countries. The results are unemployment, excess capacity, and costly unintended stock accumulation.

67. In the field of tariffs, the generalized, non-reciprocal and non-discriminatory system of preferences was established to help developing countries increase their export earnings, promote their industrialization and accelerate their rates of economic growth. During its short lifetime, the GSP has asserted itself as a viable trade policy instrument for the establishment of more equitable trade and economic relations between developed and developing countries. The need to maintain and improve the system in order to achieve its declared objectives has been recognized in the Tokyo Declaration[13] and reaffirmed at the fourth session of the United Nations Conference on Trade and Development in Nairobi.[14] In view of the commitment by preference-giving countries to maintain and improve the GSP, the status of generalized preferences might be given special consideration at the fifth session of the Conference, with a view to achieving the necessary stability of the system. The measures which could be adopted for maintenance and improvement of the GSP are detailed in a report of the UNCTAD secretariat.[15] It should be noted in this connexion that a large number of agricultural products as well as certain industrial products (textiles, leather goods, footwear, etc.) of major export interest to developing countries are presently excluded from the GSP. These products face high tariff protection in developed countries, and if these countries are not able to grant the GSP treatment, they should substantially reduce MFN duties on them. However, despite the commitments they undertook under the Tokyo Declaration, the developed countries have in many cases placed these products on the exception lists in the current multilateral trade negotiations, or have applied to them smaller-than-average tariff cuts.

68. As regards non-tariff measures, the developed countries have not fully accepted the views of the developing countries that they should apply the principle of differential and more favourable treatment in favour of developing countries, and that they should take effective steps for the reduction or removal of non-tariff barriers. Furthermore, the substantial failure to observe the standstill principle of Conference resolution 96 (IV) concerning imports from developing countries would suggest that a new international framework, embodying convergent short-term and long-term approaches, is needed to deal with the problem of the new protectionism.

69. Instead of liberalization, there has been a proliferation of restrictions on trade in the 1970s.[16] Starting in a disguised way, they now form an alarming pattern of protectionism which manifests itself largely in "negotiated" restrictions, whether in the form of "voluntary export restraints" or "orderly marketing arrangements", or by other protective devices fitting into the concept of what is called "organized free trade". In more realistic terms, these can be defined as market-sharing agreements in favour of aging and inefficient domestic industries at the expense of competitive foreign producers. The orderly marketing arrangement in textiles has been a cause of concern to developing countries. Textiles are one of the largest items in the exports of manufactures by developing countries and territories which possess supply capacity as well as comparative advantage. Liberal access to the markets of developed countries for textiles is, therefore, of vital importance to developing countries. The Arrangement Regarding International Trade in Textiles has been extended for a period of four years until 31 December 1981

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

[14] Conference resolution 91 (IV).

[15] See document TD/232, reproduced in the present volume.

[16] See document TD/226, reproduced in the present volume.

by a GATT Protocol.[17] Its application has been allowed to become more restrictive by the provision of "jointly agreed reasonable departures" from the Arrangement. It may be noted that while restrictive measures under the Arrangement and its predecessors were claimed to be only "temporary" in nature, they have persisted for 15 years, during which period few attempts have been made to adjust the production in the developed market economies to the changing structure of world trade and the competitive edge of the developing countries in textiles.

70. While a number of the voluntary restraints and orderly marketing arrangements were introduced to protect producers in certain developed market-economy countries from exports from other developed market-economy countries, they are increasingly being extended to exports from developing countries and, in particular, to the new exports by these countries, such as steel, ships, and electronic products. Thus, developing countries are being faced with a new protectionist wave for which there are no set rules of the game and in which economic bargaining power, and in particular that held by major developed countries, determines the outcome. A further cause for concern is the fact that since voluntary restraints and orderly marketing arrangements encourage, and in certain cases even necessitate, the organization of cartels among producers and exporters to limit production and exports, there is a risk of a cartelization of trade organized by producers and exporters at the instigation and with the blessing of Governments.

71. Present pressure for protectionism needs to be contained and the existing trade restrictions need to be subjected to international rules and procedures. It is an important feature of recent restrictions that they tend to fall outside or deliberately bypass the existing framework regulating international trade. In view of this, in the short term, agreement should be sought on a set of principles and rules to safeguard the export interests of developing countries. Such principles and rules could lay down, for instance,[18] that restrictions on imports from developing countries should not be imposed unless it can be demonstrated that domestic market disruption has resulted from such imports alone; that restrictions on imports from developing countries should be regarded as emergency action to meet unforeseen difficulties in a specific sector, such emergency action to be preceded by advance notice and consultations with developing country suppliers; that provision should be made for substantial growth in the future of imports of products subject to restrictions, as well as adequate provision for new suppliers from developing countries; that adequate compensation should be provided for loss of export opportunities due to new restrictions; that any new import restrictions should be "degressive" over an agreed time period; that restrictions should not be so severe that they prevent the adjustment process from operating; that restrictions should be accompanied by appropriate redeployment and retraining schemes; and that there should be an effective international procedure to deal with complaints from developing countries affected by import restrictions.

72. As indicated, restrictive business practices are a further means of circumventing trade liberalization measures to the detriment of the trade and development of the developing countries and with adverse impact on their access to the markets of the developed countries.[19] As an alternative to direct governmental action to control imports, such as quotas or tariffs, industries and Governments of developed market-economy countries have sought to regulate import competition through the use of restrictive business practices by enterprises. Such restrictive practices aim at raising prices and controlling the volume of exports by means of collective action at the enterprise level in exporting countries. In certain cases, such action has resulted from understandings reached between governments in the importing and exporting countries, between Governments and enterprises, or between enterprises only in exporting countries. This has inevitably led to the establishment and strengthening of export cartel arrangements, at both national and international levels.

73. Further, transnational corporations regulate trade through the control they exercise over the export and import transactions of their constituent entities, such as their subsidiaries and affiliates. Such control is exercised not only in respect of such transactions within the corporation (i.e. intra-firm trade) but also over imports from and exports to third parties. A significant and growing proportion of world trade is subject to such control.

74. It is in this context that the envisaged adoption of a set of multilaterally agreed equitable principles and rules to control restrictive business practices should be seen. The objectives which have been framed for the principles and rules lay special emphasis on the trade and development interests of developing countries. They aim to ensure that restrictive business practices do not impair or negate the realization of benefits from trade liberalization measures.

75. To facilitate implementation of the principles and rules in developing countries, further progress should be made on the model law or laws on restrictive business practices. There is also a need for permanent machinery within UNCTAD to provide a forum for work in the area of restrictive business practices in general and, in particular, for monitoring the principles and rules once they are adopted.

H. Economic co-operation among developing countries

76. A major source of concern to the developing countries is the persistence of their dependence on the developed countries for the supply of capital goods and as markets for the exports of manufactures. They remain crucially dependent on the developed countries for a vast part of their trade and external economic exchanges. The concern about this relationship, which has been felt for many years, has been accentuated by the deleterious effects of protectionism on market access. The long-awaited economic recovery of the developed countries is not likely to achieve by the "trickle-down" effect the growth in the share of world exports of manufactures stipulated in the

[17] Protocol Extending the Arrangement Regarding International Trade in Textiles, signed at Geneva on 14 December 1977 (GATT, *Basic Instruments and Selected Documents, Twenty-fourth Supplement* (Sales No. GATT/1978-1), p. 5). For the text of the Arrangement, see *ibid., Twenty-first Supplement* (Sales No. GATT/1975-1), p. 3.

[18] See document TD/226, reproduced in the present volume.

[19] See document TD/231, reproduced in the present volume.

target, and certainly will not reduce the existing dependency.

77. While the industrial restructuring of the developed countries which is being proposed is based on the common interest of developed and developing countries, the developing countries also need to develop collective self-reliance and to take measures to strengthen their bargaining capacity in their relations with the developed countries. Increasing attention is now being given to following these additional approaches to development. As noted earlier, trade among developing countries is the most dynamic sector of world trade for manufactures and will need to grow at a rate of at least 10 per cent a year up to the year 2000 in order to reach the over-all target.

78. Most of the particular measures to achieve these objectives have been discussed earlier, viz. industrial collaboration arrangements, the establishment of multinational enterprises, control of restrictive business practices, improving the supply capability of developing countries, etc. Co-operation between developing countries will also need to be fostered at regional and subregional levels, and should include the traditional measures of trade liberalization and reform, such as customs unions, free trade agreements and other preferential arrangements. Institutional arrangements now exist to provide opportunities for consultation on measures on trade among themselves. These need to be strengthened to provide for specific discussions on manufactures and semi-manufactures.

I. Trade relations among countries having different economic and social systems

79. Trade among countries with different economic and social systems has been expanding rapidly, although existing opportunities for expanding trade between the developing countries and the socialist countries have not always been fully exploited. There is a need to widen the geographical basis for such trade, to further diversify the commodity structure of the developing countries' exports and, particularly, to increase the share of manufactures and semi-manufactures in the exports of the developing countries. Such an expansion of trade would help to reduce further the existing dependency of the developing countries on the developed market-economy countries as markets and as suppliers of capital. It would help to strengthen the industrial potential of the developing countries.

80. There remains a considerable gap in knowledge of the trade opportunities and practices. The recent past has shown that the best results have been obtained by partner countries which have adjusted and applied mutually supporting policies and measures which take into account the interests of all the partners.[20] This approach encompasses economic, industrial and scientific co-operation as well as co-operation in trade. As mentioned earlier, industrial collaboration arrangements are a useful means of expanding trade between countries having different economic and social systems. These allow intra-industry specialization, co-operation in third-country markets, tripartite industrial co-operation, and so on. Such long-term agreements increase mutual confidence and stability in trade relations.

[20] See document TD/243, reproduced in the present volume.

81. In addition to progress along existing lines, new medium-term and long-term measures need to be identified to further develop arrangements on trade and economic and technical co-operation with the socialist countries with a view to strengthening the industrial potential of the developing countries. The permanent machinery of UNCTAD could be used to facilitate bilateral or multilateral consultations on these matters.

CHAPTER V

Summary and conclusions

82. It would appear that from the standpoint of the developing countries the basic problem in the field of trade in manufactures and semi-manufactures arises from the slow pace of structural adjustment in the economies of the developed countries. Structural adjustment as envisaged by the dictum of free flow of goods and factors does not obtain in a world where trade policies are frequently designed to restrict and restrain competitive imports, nor where industrial policies are being increasingly developed to support the existing inefficient international division of labour. Because of the dominance of the transnational corporations in the production, marketing and distribution of and trade in manufactures, the problem of "entry" for developing countries in terms of greater and equitable participation in world trade in manufactures and semi-manufactures is extremely difficult.

83. The industrialization process in the developing countries has created a situation in which their domestic production has replaced industrial imports to a certain extent but these countries have also emerged as successful exporters to the markets of the developed countries and as their competitors in third markets. In the past, the efforts of the developing countries in international economic policy-making has quite naturally been heavily concentrated on seeking access to the markets of the developed countries. The reaction of the developed countries has been substantially a defensive one: while introducing the GSP, they incorporated important exceptions. More recently, guided by short-term considerations, the developed countries have imposed direct and indirect restrictions on imports of manufactures from the developing countries. However, it is not difficult to perceive that protectionism is only a sympton of the larger problem: the failure of the developed countries to adjust sufficiently rapidly to the changing world production and trade structures in manufactures and semi-manufactures. The developed countries wish to preserve those traditional industries which are basically labour-intensive in nature, and in which the developing countries may have acquired a cost advantage or increased an advantage they already had.

84. A large proportion of the exports of developing countries in the field of manufactures are goods already being produced in developed countries in sectors which are relatively labour-intensive. These exports, therefore, are often regarded as threatening the job opportunities in developed market-economy countries and, therefore, provoke protectionist measures by these countries. On the other hand, the developing countries are to a considerable extent precluded from participation in the dynamic sectors

of world trade in manufactures because comparative advantage in such lines of production weighs heavily against them in terms of investment in capital, technology, commercial infrastructure marketing and managerial skills. This type of trade is also dominated by the transnational corporations. This creates a basic dilemma for the developing countries. The exports of manufactures for which they apparently have the best prospects for expansion require minimal physical capital and investments in industrial and managerial skill, but they will have to face both a sluggish demand situation and the opposition of manufacturers and labour unions in the developed countries' "stagnant" industries, which are currently being kept alive in the face of external competition by protection, subsidies and incentives of different types.

85. Efforts have been made to improve supply conditions in many developing countries by increasing the capital-intensity of production, absorbing technological innovation and creating managerial skills for designing, producing and marketing products that belong to the leading sectors of the world trade in manufactures. Both demand and supply conditions can be changed by making alterations in the industrial policies of the developed countries, which on the one hand prevent the phasing out of their inefficient industries and on the other hand prevent the developing countries from entering the dynamic sectors of the world trade in manufactures. It would be in the interests of the developed countries themselves to take advantage of existing and future possibilities for an improved international division of labour and to promote the orderly transfer of resources from areas of production with low labour productivity to areas better suited to their factor endowment. Unless specific policies are undertaken to this effect, the pressure for continued protection will persist and become even more severe during periods of lower economic activity and rising unemployment, as has been the experience during the years 1974-1978.

86. There is little hope, considering the present trade and industrial policies of the developed countries, that market forces alone will bring about any appreciable increase in the share of developing countries in world industrial output or world trade in manufactures. The rates of industrialization of developing countries, impressive as they may look in themselves, have not resulted in significant increases in the developing countries' share in world manufacturing output, world trade in manufactures or world consumption of industrial goods. A new and comprehensive strategy is needed to overcome this situation.

87. The elements of a set of comprehensive measures to expand and diversify the export trade of developing countries in manufactures and semi-manufactures could be conceived as consisting of a target share for the developing countries in the world trade in manufactures and semi-manufactures, and policy action for its realization:

1. *The target*

(i) There is a need to establish a target for the share of developing countries in the world trade in manufactures and semi-manufactures for the year 2000. A target of at least 30 per cent would be fully consistent with the Lima target for industrial development. The target should be formulated in a series of five-year perspective plans, and should be disaggregated as far as possible on a sectoral and regional basis.

(ii) It will be necessary to undertake an objective and critical examination of the present industrial and trade policies of the developed countries to determine the appropriate changes and the very substantial industrial restructuring necessary to achieve the target.

2. *Policy action*

(a) *Policies and practices of the developed countries*

(i) Removal of the biases and discrimination in the industrial policies of the developed market-economy countries which affect both the industrial production and the exports of the developing countries is a prerequisite for the industrial restructuring needed to induce a more efficient allocation of the world's resources which would benefit developed and developing countries alike.

(ii) Disengagement of resources from declining industries over a period of time in the developed countries is an essential part of the restructuring. With a view to minimizing the social and economic costs to the developed market-economy countries and to accelerating this process, greater use should be made of adjustment assistance.

(iii) The Governments of the developed countries should exercise a positive influence to promote greater intra-industry specialization, including industrial collaboration arrangements.

(iv) While the full benefits of improved access to the markets can only be realized with the implementation of these comprehensive measures, the growing production capacities of the developing countries demand immediate improvements in access. Within the developed market-economy countries this requires the reversal of protectionist tendencies, improvements in the application of the GSP, elimination of non-tariff barriers to trade and control of restrictive business practices adversely affecting international trade, particularly the trade and development of developing countries.

(v) Measures on a medium-term and long-term basis need to be identified to further develop arrangements on trade, economic and technical co-operation with the socialist countries of Eastern Europe in order to strengthen the national industrial potential of the developing countries.

(b) *Policies and practices of developing countries*

(i) Every effort should be made to strengthen the supply capabilities of the developing countries, especially in the processing of primary products and the dynamic products of world manufacturing trade. In this context, improvement of the financial and commercial infrastructure in developing countries is important.

(ii) There will need to be agreement between developed and developing countries on policies to control and influence the production, marketing and distribution policies of the transnational corporations with a view to ensuring that the immense economic power of the transnational corporations is not misused to the detriment of the developing countries and that the operations of the transnational corporations are in harmony with the trade and development needs of the developing countries.

(iii) In order to develop their collective self-reliance and their countervailing power, the developing countries need to adopt a series of measures aimed not only at increasing trade among themselves but also at changing their production structure on the basis of joint action.

(iv) For similar reasons they need to set up marketing and distribution facilities of their own.

88. The institutional framework implied by the approach which has been outlined could be as follows:

(i) A recommendation by the Conference on the need to evolve a framework of trade and industrial policies which would accommodate the exports of manufactures and semi-manufactures on the basis of guarantees that protective measures against such exports of developing countries would not be taken or that some form of compensation for lost markets should be given;

(ii) Global consultations on the restructuring of world industrial production in industrial sectors of actual or potential interest to developing countries, including: (*a*) consultations on industrial policies in developed market-economy countries, with a view to phasing out uneconomic industries in these countries and achieving long-term trading arrangements based, as appropriate, on the concept of market-sharing, and (*b*) consultations with socialist countries to strengthen the national industrial potential of developing countries through arrangements on trade, economic and technical co-operation;

(iii) Consultations among developing countries on measures for increasing trade among themselves in manufactures and semi-manufactures;

(iv) Strengthening of UNCTAD-UNIDO co-operation, including joint work, in view of the close relationship between trade in manufactures and industrialization.

ANNEX

Review of the implementation of Conference resolutions 96 (IV) and 97 (IV)

Resolution 96 (IV). A set of interrelated and mutually supporting measures for expansion and diversification of exports of manufactures and semi-manufactures of developing countries

1. Improving market access

A. GENERALIZED SYSTEM OF PREFERENCES

The preference-giving countries have made improvements in their respective schemes of generalized preferences which generally include extension of the product coverage and the lists of beneficiaries, deeper tariff cuts, an increase in the level of tariff quotas and ceilings by those preference-giving countries applying *a priori* limitations on preferential imports, and simplication and harmonization of the rules of origin. As a result of these improvements, the share of the GSP covered products in the total dutiable imports by preference-giving countries from preference-receiving countries has increased but remained less than 50 per cent. The share of GSP covered products receiving preferential treatment has also increased, in large part owing to the widespread interest of preference-receiving countries and to measures taken by them. The utilization rates of GSP advantages have varied from scheme to scheme and on average stood only at 40 per cent of covered imports.

B. TARIFF RECLASSIFICATION

The UNCTAD secretariat has prepared, *inter alia*, a study on the identification of tropical wood[a] and has made specific proposals to the Harmonized System Committee of the Customs Co-operation Council for separate classification in the new harmonized system of these and a large number of other products of export interest to developing countries. Many of these have already been separately classified by the Harmonized System Committee.

[a] "Reclassification tarifaire: bois et ouvrages de bois tropicaux du chapitre 44 de la NCCD" (UNCTAD/ST/MD/7, French only).

C. TARIFFS AND NON-TARIFF MEASURES

(a) *Principle of standstill*

The developed countries have not adhered to the standstill provisions they have accepted concerning imports from developing countries. On the contrary, the period since the fourth session of the Conference has seen a proliferation of trade restrictive measures, taking the form *inter alia* of voluntary export restraints, orderly marketing arrangements and extended anti-dumping provisions, which often discriminate against the exports of developing countries. The products affected include textiles and clothing, footwear, iron and steel, transport equipment including shipbuilding, and mechanical and electrical goods. Contrary to the provisions of resolution 96 (IV), these departures from the standstill have not been subjected to multilateral surveillance and compensation.

(b) *The least developed countries*

Special measures have been extended under the GSP by Bulgaria, Czechoslovakia, the EEC, Hungary, and Norway, which consisted of improved preferential treatment for exports from the least developed countries. Thus, only limited action has been taken with respect to tariffs in favour of these countries, and no comparable action has been taken in the field of non-tariff barriers.

D. NON-TARIFF MEASURES

(*a*) In this respect, resolution 96 (IV) referred to and reaffirmed the provisions of the Declaration of Ministers approved at Tokyo on 14 September 1973 on the multilateral trade negotiations.[b] The extent to which this section of the resolution has been implemented can only be gauged from the outcome of the negotiations. Reference is therefore made to the report submitted by the UNCTAD secretariat under item 9 (*b*) of the agenda for the fifth session of the Conference,[c] where a preliminary evaluation is attempted of the outcome of the negotiations and further recommendations are made.

[b] See foot-note 13 above.

[c] Document TD/227, reproduced in the present volume.

(*b*) Resolution 96 (IV) noted that the countries participating in the Arrangement Regarding International Trade in Textiles recognized the exceptional nature of measures taken under the Arrangement and that these measures did not lend themselves to application in other fields. As is demonstrated in a report by the UNCTAD secretariat submitted under item 9 (*a*) of the agenda,[d] in the last few years measures similar in nature to those envisaged in the Arrangement have been taken also in sectors other than textiles. The Arrangement Regarding International Trade in Textiles was extended for a period of four years until 31 December 1981 through a GATT Protocol.[e] Although no changes were made in the Arrangement itself, the developing countries had to agree to its extention with the conditions set out in the Protocol, permitting in particular the introduction of new discriminatory restrictions on imports of textiles and clothing from developing countries.

(*c*) In resolution 96 (IV), the developed countries were further requested to give consideration to the views of the developing countries concerning issues relating to non-tariff measures. The relevant report by the UNCTAD secretariat[f] shows that, contrary to this request, "voluntary" export restraints and similar restrictive measures have proliferated, often with a tendency towards discrimination against products of export interest to developing countries.

E. ADJUSTMENT ASSISTANCE MEASURES

The UNCTAD secretariat has reported on adjustment assistance measures in two documents prepared for the eighth and ninth sessions of the Committee on Manufactures, respectively.[g] One conclusion of these reports was that existing adjustment assistance programmes are often biased towards maintaining import-competing industries, even when the long-term signals indicate that such industries or lines of production are unable to survive on their own in a competitive international market environment. A promising development occurred in June 1978 when the OECD Ministers formally recognized the need for a shift to "more positive adjustment policies" as an integral part of a programme of concerted action for more sustained and better balanced growth in the world economy.[h]

II. Industrial development and co-operation

A. IMPROVING THE CAPABILITY OF THE DEVELOPING COUNTRIES TO SUPPLY EXPORTS

Progress in this field has been disappointing and the various issues raised by this part of the resolution remain largely unsolved.

The problem of subsidies and the related issue of countervailing duties have been the subject of negotiations within a special subgroup of the multilateral trade negotiations, where an attempt is being made to agree upon an international arrangement on these questions.

In the field of financing, no substantive headway was made in improving the provision of developing countries with adequate financial means for their industries and exports or in assisting developing countries to strengthen their financial institutions at the domestic level.

The World Bank and the regional development banks were invited to consider the establishment or expansion of export credit refinancing facilities for the exports of developing countries. The Inter-American Development Bank substantially expanded the scope of its scheme in 1976.

No substantive progress can be recorded in improving marketing and distribution channels for industrial products from the developing countries. Similarly, the exchange of publicly available and, to the extent possible, other technical and market studies and other relevant information has made no remarkable headway.

B. INTERNATIONAL CO-OPERATION FOR INDUSTRIAL DEVELOPMENT, RESTRUCTURING AND TRADE

In 1978 the governing bodies of UNCTAD and UNIDO decided to establish an *ad hoc* UNCTAD/UNIDO Group of Experts whose terms of reference are to undertake an examination of the trade and trade-related aspects of industrial collaboration which would be of benefit to developing countries in relation to international co-operation in the industrial development of developing countries (see para. 46 above). It will be noted that the terms of reference of the *ad hoc* Group are narrower than the specific measures referred to in resolution 96 (IV), section II.B, paragraph 5.

C. TRADE AND INDUSTRIAL CO-OPERATION BETWEEN THE SOCIALIST COUNTRIES OF EASTERN EUROPE AND THE DEVELOPING COUNTRIES

In the period since the fourth session of the Conference the socialist countries of Eastern Europe and the developing countries have pursued policies aimed at further intensifying their trade and economic relations, including industrial co-operation, which have resulted in the increase of their mutual trade. The objective of fostering the developing countries' exports to these countries remains valid and requires additional measures to be undertaken to serve this end.

The promotion of various forms of industrial co-operation between developing countries and socialist countries of Eastern Europe seems to be one of the promising ways of expanding their mutual trade and particularly the developing countries' exports of manufactures and semi-manufactures; this co-operation has been intensified in recent years on the basis of the growing number of intergovernmental agreements. In some cases the agreements between individual socialist countries of Eastern Europe and developing countries directly provide that a part of the assistance and credits received by the latter will be paid for by the delivery of manufactured items to the former countries. The development of industrial co-operation on a large-scale, complex and long-term basis is a new feature emerging in industrial co-operation between the two sets of countries. Recent years have witnessed a trend towards multilateral arrangements which are intended to supplement the bilateral efforts.

D. CO-OPERATION WITH THE UNITED NATIONS INDUSTRIAL DEVELOPMENT ORGANIZATION

The co-operation between UNCTAD and UNIDO in their respective areas of competence has further developed and was, in particular, concerned with industrial collaboration arrangements (see sect. B above), UNIDO sectoral and global consultations, free ports and free zones, and the joint study on international industrial co-operation.

III. Restrictive business practices

The implementation of this section of the resolution is dealt with in the report "Principles and rules and other issues relating to restrictive business practices" submitted under item 11 (*b*) of the agenda.[i]

Resolution 97 (IV). Transnational corporations and expansion of trade in manufactures and semi-manufactures

The Conference adopted resolution 97 (IV) by 84 votes to none, with 16 abstentions. Since its adoption, some progress towards reaching the goals laid down in the resolution has been registered, in particular in developing countries.

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[d] Document TD/226, reproduced in the present volume.

[e] See foot-note 17 above.

[f] Document TD/226, reproduced in the present volume.

[g] "Adjustment assistance measures: report by the UNCTAD secretariat" (TD/B/C.2/171); and *Adjustment assistance measures* (United Nations publication, Sales No. E.79.II.D.4).

[h] See *OECD Observer* (Paris), No. 93, July 1978, p. 9.

[i] Document TD/231, reproduced in the present volume.

The UNCTAD secretariat has submitted a report to the Committee on Manufactures at its ninth session on the role of transnational corporations in the marketing and distribution of exports and imports of developing countries.[j] Three background documents on subjects related to transnational corporations, one prepared by the UNCTAD secretariat and the other two by consultants, were also drawn to the Committee's attention.[k] In addition, the UNCTAD secretariat has maintained close co-operation with the Commission and the Centre on Transnational Corporations, in particular regarding work on the envisaged code of conduct in so far as it deals with restrictive business practices and transfer of technology.

[j] "The role of transnational corporations in the marketing and distribution of exports and imports of developing countries: report by the UNCTAD secretariat" (TD/B/C.2/197).

[k] *Dominant positions of market power of transnational corporations: use of the transfer pricing mechanism* (United Nations publication, Sales No. E.78.II.D.9); "Impact on developing countries of restrictive business practices of transnational corporations in the electrical equipment industry: a case study of Brazil" (UNCTAD/ST/MD/9); "The international market power of transnational corporations: a case study of the electrical industry" (UNCTAD/ST/MD/13).

DOCUMENT TD/231

Principles and rules and other issues relating to restrictive business practices

Report by the UNCTAD secretariat

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CONTENTS

Introduction

1. The formulation of a set of principles and rules for the control of restrictive business practices was one of the actions decided upon by the United Nations Conference on Trade and Development at its fourth session, in section III of resolution 96 (IV), in order to achieve the goal of eliminating or effectively dealing with restrictive business practices, including those of transnational corporations, adversely affecting international trade, particularly that of developing countries, and the economic development of those countries. Other action decided upon by the Conference in connexion with the control of restrictive business practices concerned the supply, collection, dissemination and exchange of information; technical assistance; the elaboration of a model law or laws; and the institution or improvement of appropriate procedures for notification. To achieve the goals set, the Third *Ad Hoc* Group of Experts on Restrictive Business Practices was established with the mandate to prepare proposals and recommendations. In the period between the fourth and fifth sessions of the Conference the Group will have held six sessions;[1] at its forthcoming sixth session, in April 1979, the Group is required to complete its work on the set of principles and rules and to make further progress on its work on a model law or laws on restrictive business practices.

2. In respect of the principles and rules, the General Assembly, pursuant to the recommendation of the Trade and Development Board in resolution 178 (XVIII) of 17 September 1978, decided in resolution 33/153 of 20 December 1978,

> to convene, in the period between September 1979 and April 1980, under the auspices of the United Nations Conference on Trade and Development, a United Nations Conference on Restrictive Business Practices to negotiate, on the basis of the work of the Third *Ad Hoc* Group of Experts, and to take all decisions necessary for the

[1] For the reports of the Group on the five sessions held during the period November 1976 to July 1978, see documents TD/B/C.2/AC.6/4, TD/B/C.2/181-TD/B/C.2/AC.6/7, TD/B/C.2/AC.6/10, TD/B/C.2/AC.6/13 and TD/B/C.2/AC.6/18. The report of the Group on its sixth session held from 17 to 27 April 1979, was circulated as document TD/250.

adoption of, a set of multilaterally agreed equitable principles and rules for the control of restrictive business practices having adverse effects on international trade, particularly that of developing countries, and on the economic development of those countries, including a decision on the legal character of the principles and rules.

Moreover, the General Assembly authorized the United Nations Conference on Trade and Development at its fifth session to take appropriate actions for the United Nations Conference on Restrictive Business Practices, including decisions on relevant issues and, in particular, the determination of the precise dates for the Conference within the period just indicated.

CHAPTER I

Importance of restrictive business practices in international trade, particularly the trade and development of developing countries

3. At its third session, in Santiago de Chile in 1972, the Conference, in resolution 73 (III), recognized that work being done on restrictive business practices constituted an important component of the programme of work on the liberalization of barriers to the trade of developing countries in manufactures and semi-manufactures and that every effort should be made with a view to alleviating and, where possible, eliminating restrictive business practices adversely affecting their trade and development. In doing so, Governments were aware that restrictive business practices could be used as a means of circumventing trade liberalization measures such as those agreed upon in the context of the generalized system of preferences.

4. Arrangements between enterprises in one or several countries to regulate exports and/or imports—that is, national external trade cartels and international cartels—are the clearest form of restrictive business practices which affect international trade and, in particular, the trade and economic development of developing countries. Such arrangements are most common in developed countries in industry sectors, such as raw materials, textiles, electrical goods and chemicals, where developing countries have substantial export and import interest. The objectives of such arrangements are, as indicated by the Second *Ad Hoc* Group of Experts on Restrictive Business Practices,[2] to fix prices as to exports and imports and to decide who can make which exports to which country; newcomers are prevented from joining such arrangements and sanctions are placed on members who do not abide by the understandings reached.

5. The recent upsurge in what have been euphemistically called "voluntary restraints" or "orderly marketing arrangements" to control imports into developed market-economy countries—including imports from developing countries—are but further evidence of the effectiveness of such forms of restrictive business practices as a means to regulate international trade. Governments in developed countries have preferred to encourage greater use of restrictive business practices in international trade rather than impose import quotas or raise tariffs. There are many reasons for this, including the obligations which developed countries have assumed in such bodies as UNCTAD and GATT not to raise new barriers to imports, and possibly also the fact that tariffs have lost some of their importance in a world of highly flexible exchange rates. The result has been that enterprises in exporting countries have been encouraged, on a collective basis, to control the volume of their exports to developed countries. In certain cases, specific understandings have been reached between Governments in the exporting and importing countries which have necessitated controls on exports; or, in the absence of such specific understandings, Governments have encouraged their enterprises to control the volume of their exports; or enterprises, fearing stronger controls in the importing countries on imports, have, on their own initiative or as a result of pressure from enterprises in the importing countries, agreed between themselves to limit the volume of their exports. This has inevitably led to the establishment and strengthening of export cartel arrangements, both at national and international levels. Such action has been possible because of the minimal control in respect of national and international export cartels. Moreover, this trend has been accompanied, to a certain extent, by the sanctioning of the use, in the domestic markets of developed market-economy countries, of restrictive business practices to facilitate restructuring of industries.[3]

6. Furthermore, transnational corporations regulate trade through the control they exercise over the export and import transactions of their constituent entities, such as their subsidiaries and affiliates. This control is exercised not only in respect of such transactions within the corporation (i.e. intra-firm trade) but also over imports from and exports to third parties. A significant and growing proportion of world trade is subject to such control.[4]

7. It was in clear recognition of the fact that such restrictive business practices have adverse effects on international trade, particularly that of the developing countries, that Governments unanimously decided, in Conference resolution 96 (IV), that concerted action in a mutually reinforcing manner was needed to eliminate or effectively deal with restrictive business practices, including those of transnational corporations. It is in this context that the formulation of a set of multilaterally agreed principles and rules was viewed.

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[2] See the report of the Second *Ad Hoc* Group of Experts (*Official Records of the Trade and Development Board, Seventh Special Session, Annexes,* agenda item 2, document TD/B/600), para. 38.

[3] For a more detailed description of these developments, see "Annual report on legislative and other developments in developed and developing countries in the control of restrictive business practices, 1978, prepared by the UNCTAD secretariat" (TD/B/C.2/AC.6/15).

[4] For a detailed discussion of the importance of transactions of transnational corporations in world trade, see "The role of transnational corporations in the marketing and distribution of exports and imports of developing countries: report by the UNCTAD secretariat" (TD/B/C.2/197), chap. I.

CHAPTER II

Outstanding issues in respect of the principles and rules

8. The majority of the proposed provisions[5] for the set of principles and rules have been agreed at the export group level, and the Trade and Development Board, in recommending in its resolution 178 (XVIII) that there should be a United Nations Conference to negotiate on the basis of the work of the Group of Experts, welcomed the significant progress made. The set of principles and rules, as drawn up by the Third *Ad hoc* Group of Experts, has sections on objectives, definitions and scope of application, principles for the control of restrictive business practices, enterprise behaviour, action by Governments at national and regional levels, and action at the international level.

9. Five agreed objectives have been framed for the principles and rules. These lay specific emphasis on the trade and development interests of developing countries. The objectives are to ensure that restrictive business practices do not impede or negate the realization of benefits from trade liberalization measures, to attain greater efficiency in international trade and development, to protect and promote social welfare in general, to eliminate the disadvantages to trade and development which may result from the restrictive business practices of transnational corporations or other enterprises, and finally, through adoption of the principles and rules at the international level, to facilitate the adoption and strengthening of laws and policies at national and regional levels.

10. The principles and rules contain agreed definitions for "restrictive business practices", "dominant position of market power" and "enterprises", and a definition of "cartel" is under consideration. Concerning the scope of application, it has been agreed that the principles and rules apply to all restrictive business practices and to all transactions in goods and services, are addressed to all enterprises and are universally applicable. The only issue outstanding is that of exceptions to the scope of application.

11. Four generally applicable principles which have been agreed for the control of restrictive business practices are: the need for appropriate action to be taken in a mutually reinforcing manner at national, regional and international levels; collaboration between States at bilateral and multilateral levels; appropriate mechanisms at the international level to facilitate exchange and dissemination of information; and appropriate means to facilitate multilateral consultations. The question of the possibility of preferential or differential treatment for particular types of enterprises has yet to be settled.

12. Concerning enterprise behaviour, provisions have been agreed relating to the duty of enterprises to conform to the laws of the countries in which they operate; to supply information to and to consult with Governments; to refrain from participating in a wide range of restrictive agreements or arrangements and to refrain from a range of acts or behaviour constituting an abuse of a dominant position of market power. Yet to be determined are the precise nature of the information required from enterprises and whether, and the extent to which, separate provisions should be included specifically regarding the behaviour of transnational corporations.

13. Full agreement has virtually been reached on 11 out of a possible 13 provisions for governmental action at national and regional levels. These concern the adoption, improvement and effective enforcement of controls on restrictive business practices; the nature and manner of application of legislation; where applicable, protecting the confidentiality of information obtained from enterprises; preventing legislation or administrative procedures from fostering certain types of restrictive business practices; instituting or improving procedures for obtaining information from enterprises; co-operation between States generally in the development and improvement of control systems and in respect of the supply of information; and the establishment and strengthening of controls at regional and subregional levels, especially in the context of economic and integration arrangements, over restrictive business practices. The principal issue remaining to be settled in this area concerns consultations between States—a matter which is also an unresolved issue in the section entitled "International measures" (sect. G).

14. Action at the international level is envisaged as embracing: the achievement of common approaches to the control of restrictive business practices; notification of exceptions or exemptions granted by States; consultations; the dissemination of information on restrictive business practices; technical assistance, advisory and training programmes; and future institutional arrangements at the international level for facilitating efforts for the control of restrictive business practices. A common element to be resolved throughout this section is the role which UNCTAD might play in regard to these matters.

15. The final section (sect. H) deals with implementation of the principles and rules. This is closely linked with the decision on their legal character.

16. Further progress is likely to be made on the provisions at the sixth session of the Group of Experts, particularly in view of the fact that the Group is required to complete its work on the principles and rules at that session.

17. As emerges from the above description of the state of the work in the Group of Experts, the issues on which agreement has still to be reached fall into four broad categories:

(*a*) Exceptions of a general and specific nature in respect of the application of the principles and rules;

(*b*) Preferential or differential treatment for particular types of enterprises;

(*c*) Institutional arrangements;

(*d*) The legal character of the principles and rules.

18. The General Assembly, in resolution 33/153 of 20 December 1978, authorized the Conference, at its fifth session, to take appropriate actions for the United Nations

[5] The present report refers to the text of the provisions agreed or proposed as at the end of the fifth session of the Group of Experts and as contained in the report on that session (TD/B/C.2/AC.6/18, chap. I, B). The Conference, at its fifth session, will have before it the set of principles and rules as completed by the Group of Experts during its sixth session (see TD/250).

Conference on Restrictive Business Practices, including decisions on relevant issues.

19. One specific decision which the General Assembly has requested the Conference to take at its fifth session is determination of the precise dates for the United Nations Conference on Restrictive Business Practices in the period between September 1979 and April 1980.

20. Concerning the four issues on which agreement has still to be reached, it would seem difficult to take action on the legal character of the principles and rules without action being taken on major aspects of the other three issues. It is recalled that in resolution 33/153 the General Assembly, pursuant to the recommendation of the Trade and Development Board, requested the United Nations Conference on Restrictive Business Practices to take all decisions necessary for the adoption of a set of multilaterally agreed equitable principles and rules, including a decision on the legal character of the principles and rules.

A. Exceptions of a general or specific nature

21. The issue of exceptions is a crucial aspect of the principles and rules since the wider the exceptions to be permitted, the narrower will be the scope of application of the principles and rules and, therefore, the less the likelihood of their achieving the objectives agreed upon.

22. In respect of exceptions, the outstanding aspects concern determination of the extent to which the principles and rules will apply to:

(*a*) Behaviour involving related parties, for example, transactions between various entities of a transnational corporation;

(*b*) Activities of State enterprises;

(*c*) Restrictive business practices engaged in by enterprises as a result of intergovernmental agreements;

(*d*) Restrictive business practices at present permitted by States under their legislation and involving such activities as exports, agriculture and banking.

23. The issue of exceptions will need to be viewed in the context of, *inter alia*, the decision to be taken on the legal character of the principles and rules.

B. Preferential or differential treatment for particular types of enterprises

24. This issue is closely linked with the requirement that the principles and rules be equitable in terms of their application. To achieve this objective, the Group of 77 has proposed that there should be the possibility for according differential or preferential treatment to national enterprises in their countries. On the other hand, Group B has proposed that special attention should be paid to the needs of small and medium-sized enterprises irrespective of their location.

25. Of relevance in this regard is article 18 of the Charter of Economic Rights and Duties of States[6] which provides *inter alia* that developed countries should also give serious consideration to the adoption of other differential measures, in areas where this is feasible and appropriate and in ways which will provide special and more favourable treatment, in order to meet the trade and development needs of the developing countries.

C. Institutional arrangements

26. The issue of institutional arrangements is at the heart of many of the unresolved aspects in the principles and rules. Such aspects concern essentially two questions:

(*a*) The establishment of appropriate machinery at the international level;

(*b*) The role of UNCTAD in the implementation of the "international measures" agreed or proposed at the expert group level in section G of the principles and rules. This embraces:

(i) The notification of exemptions or exceptions granted in respect of the control of restrictive business practices;

(ii) Consultations between States and the resolution of disputes;

(iii) Technical assistance, advisory and training programmes;

(iv) Dissemination of information on restrictive business practices.

The latter two issues will be dealt with in chapter III, since they concern aspects singled out by the Conference at its fourth session for specific action at the international level.

27. It might be recalled in the above context that the involvement of UNCTAD with the question of restrictive business practices commenced at the second session of the Conference, held in New Delhi in 1968. Since then, significant progress has been made in the work, especially as a result of the decisions taken at the third and fourth sessions of the Conference. In this regard, it is recalled that the Conference at its fourth session, in resolution 96 (IV), in deciding that action should be taken at the international level, specified that this should be done "particularly within the framework of UNCTAD". Further, the United Nations Conference on Restrictive Business Practices is to be convened under the auspices of UNCTAD.

1. *Establishment of appropriate machinery at the international level*

28. The need for appropriate machinery at the international level in the area of restrictive business practices is not contested by the various regional groups. The Group of 77 has proposed the following wording in section H, "Implementation of the principles and rules":

> States agree that an appropriate permanent mechanism should be established within UNCTAD to monitor the implementation of the Set of Equitable Principles and Rules and to make proposals and recommendations concerning possible revisions and improvements.

Group B has proposed the following wording in section G, "International measures", of the principles and rules:

> Periodic meetings should be organized among officials having responsibilities related to the control of restrictive business practices in States and regional groupings in order to confer on matters of policy, share current experience, and otherwise facilitate efforts for the control of restrictive business practices. States and regional groups which do not have systems for the control of restrictive

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[6] General Assembly resolution 3281 (XXIX) of 12 December 1974.

business practices should be encouraged to send representatives to such meetings.

29. It is clear from the two proposals that the appropriate machinery might have one or two basic functions, namely, to provide a forum for:

(*a*) Monitoring the principles and rules once they are adopted by the United Nations Conference on Restrictive Business Practices;

(*b*) Work generally in the area of restrictive business practices.

There is obviously a certain logic in the machinery performing both these functions, though the precise nature and extent of its responsibilities in respect of the principles and rules would probably need to be determined following their adoption.

2. *The role of UNCTAD in the implementation of the "international measures" agreed or proposed at the expert group level in the context of the principles and rules*

30. The Group of Experts has agreed to the following text for the introductory sentence of section G:

Collaboration at the international level should aim at eliminating or effectively dealing with restrictive business practices, including those of transnational corporations, through strengthening and improving controls over restrictive business practices adversely affecting international trade, particularly that of developing countries, and the economic development of these countries.

In this regard, a number of specific measures have been agreed upon.[7] Two measures on which agreement has not been reached are the notification of exceptions and consultations.

(a) *Notification of exceptions*

31. Both the Group of 77 and Group B agree that there should be a provision in the principles and rules on the supply of information concerning the granting of exceptions. The Group of 77 has proposed that, to the extent that exceptions are permitted under the principles and rules, there should be notification to the Secretary-General of UNCTAD of all exemptions granted.[8] Group B has proposed that there should be exchange of information on a mutually acceptable basis on the application of national and regional laws, regulations and policies concerning restrictive business practices, including the granting of exceptions to those laws, regulations and policies.[9] It is thus apparent that, at the expert group level, there is agreement on the need to provide information on exceptions granted but not on the manner in which this should be done. In particular, the possible role of UNCTAD in this regard has yet to be settled.

(b) *Consultations between States*

32. Likewise, there is agreement that there should be consultations between States to facilitate control of restrictive business practices. In this context the Group of 77 has proposed that:

(*a*) Where a State, particularly of a developing country, believes that consultation with another State or States is appropriate in regard to an issue concerning the adequate control of restrictive business practices, it may request the Secretary-General of UNCTAD, with the agreement of the other State or States, to convene such a consultation with a view to finding a mutually acceptable solution;

(*b*) States should accord full consideration to requests for consultations and upon agreement as to the subject of and the procedures for such a consultation, the consultation should take place at an appropriate time;

(*c*) Where a satisfactory conclusion is reached as a result of the consultations, and if the States involved so agree, the Secretary-General of UNCTAD should prepare a report on the matter to all States members of UNCTAD;

(*d*) Furthermore, if the States concerned so agree, the Secretary-General of UNCTAD shall bring any unresolved matter to the attention of the Trade and Development Board in order to consider what further action might be taken to resolve the issue in question.[10]

Group B proposes that:

(*a*) Where a State, particularly of a developing country, believes that consultation with another State or States is appropriate in regard to an issue concerning the control of restrictive business practices, it may request a consultation with those States with a view to finding a mutually acceptable solution;

(*b*) States should accord full consideration to requests for consultations and upon agreement as to the subject of and the procedures for such a consultation, including possible technical assistance from international organizations, the consultation should take place at an appropriate time and location;

(*c*) Where a satisfactory conclusion is reached as a result of the consultations, and if the States involved so agree, a report on the matter should be made available, as appropriate, to interested States and international organizations.[11]

33. While the ideas in the proposals seem to converge on many of the aspects covered, the principal differences seem to concern the extent of international involvement in respect of consultations and whether there should be a possibility of resolution of disputes at the multilateral level.

CHAPTER III

Other issues relating to restrictive business practices

34. The Trade and Development Board, in adopting resolution 178 (XVIII), bore in mind the need for action to be taken, whenever possible, at national, regional and international levels on matters other than the principles and rules, dealt with in paragraphs 1 to 3 of section III of Conference resolution 96 (IV). For example, the Board recognized, in providing for a sixth session of the Third *Ad hoc* Group of Experts, that further progress should be made on the model law or laws on restrictive business practices, while recognizing that it would not be possible to finish such work at that session.

35. The issues, other than the principles and rules, dealt with in Conference resolution 96 (IV) concern the supply and exchange of information and appropriate procedures for notification on restrictive business practices, the collec-

[7] TD/B/C.2/AC.6/18, chap. I, B, sect. G, introductory paragraph and provisions 1, 3 and 5.

[8] *Ibid.*, sect. G, proposed provision (ii).

[9] *Ibid.*

[10] *Ibid.*, proposed provision (iv).

[11] *Ibid.*

tion and dissemination of information, technical assistance, and the model law or laws on restrictive business practices. To a greater or lesser extent, all these issues are dealt with in the principles and rules.

A. Supply and exchanges of information and appropriate procedures for notification on restrictive business practices[12]

36. In respect of the supply and exchange of information on restrictive business practices, the Group of Experts has agreed, for example, that:

> States should, on request, or may on their own initiative, [and/or at their own initiative[13]] supply to other States, particularly of developing countries, publicly available information, and, to the extent consistent with their laws and established public policy, other information, necessary to the receiving [interested[13]] State for its effective control of restrictive business practices. (Sects. E and F, provision 13.)

Moreover, the Group has agreed that:

> States should establish appropriate mechanisms at the regional and subregional levels to promote exchange of information on restrictive business practices and on the application of national laws and policies in this area, and to assist each other to their mutual advantage regarding control of restrictive business practices at the regional and subregional levels. (Sects. E and F, provision 10.)

37. Concerning the institution or improvement of appropriate procedures for notification on restrictive business practices,[14] the Group of Experts has, *inter alia*, agreed in the principles and rules that:

> States should institute or improve procedures for obtaining information from enterprises, [including transnational corporations,[15]] necessary for their effective control of restrictive business practices, including in this respect details of restrictive agreements, understandings and other arrangements. (Sects. E and F, provision 8.)

In regard to the above, the Group has also agreed that:

> Enterprises should consult and co-operate with competent authorities of countries directly affected in controlling restrictive business practices adversely affecting the interests of those countries. In this regard, enterprises should also provide information required for this purpose, including that which may be located in foreign countries to the extent that in the latter event such production or disclosure is not prevented by applicable law or established public policy. Whenever the provision of information is on a voluntary basis, its provision should be in accordance with safeguards normally applicable in this field. (Sect. D, provision 2.)

Proposed provision (iii) by the Group of 77, in section D, is also of relevance in this regard.

38. The Group of Experts has therefore established broad principles in respect of these issues in the principles and rules. The precise manner of their implementation at the national, regional and international levels will need further examination.

B. Collection and dissemination of information on restrictive business practices

39. In respect of the collection and dissemination of information on restrictive business practices generally, as decided upon by the Conference,[16] decisions are required in respect of the manner in which information is to be collected and disseminated, taking into account the proposals and recommendations on this question by the Second and Third *Ad hoc* Groups of Experts on Restrictive Business Practices. Such decisions would facilitate the ongoing work in this area.

40. At its seventh special session, in March 1976, the Trade and Development Board took note[17] of the report of the Second *Ad hoc* Group of Experts on Restrictive Business Practices, in which it was noted that the Group had decided that, "in a suitable form, collected information... should be made available to the Secretary-General of UNCTAD to the extent that its public nature did not prevent its transmission. Some of this information could be supplied automatically whilst other information could be supplied on a request basis". The Group also agreed that countries should submit to the Secretary-General of UNCTAD "an annual report on the development of their legislation dealing with restrictive business practices, and on its implementation, taking into consideration in particular those practices which might be relevant to the trade and development of developing countries".[18]

41. In respect of the supply of information on an automatic and request basis to the UNCTAD secretariat, concern was expressed by the Second *Ad hoc* Group of Experts over the bulk and the questionable relevance of much of the information collected, which could cause an unnecessary burden for the UNCTAD secretariat and the countries supplying such information. Accordingly, it was agreed that further discussion of this problem between the secretariat and the countries concerned would be required. As a result of the further consideration of this question by the Third *Ad hoc* Group of Experts, States members of UNCTAD are providing information to the secretariat on a request basis, in particular in connexion with the preparation by the UNCTAD secretariat of the annual report on restrictive business practices. In addition, a number of the States members of the Group of Experts supply on an automatic and request basis additional information, such as annual reports of their restrictive business practice authorities, details of new and proposed legislation, specific reports and texts of decisions relating to enforcement action, and official press releases.[19] To facilitate the handling of this information, consideration might be given to the creation of a comprehensive information system on restrictive business practices.

42. Regarding the dissemination of information, the UNCTAD secretariat issues an annual report on legislative and other developments in developed and developing countries in the control of restrictive business practices.[20]

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[12] Cf. Conference resolution 96 (IV), sect. III, paras. 2 and 3 (*b*) and (*d*).

[13] Text proposed by Group D.

[14] Conference resolution 96 (IV), sect. III, para. 2.

[15] Text proposed by the Group of 77.

[16] Conference resolution 96 (IV), sect. III, para. 3 (*c*).

[17] See the report of the Trade and Development Board on its seventh special session, *Official Records of the General Assembly, Thirty-first Session, Supplement No. 15* (A/31/15), vol. I, para. 64.

[18] See *Official Records of the Trade and Development Board, Seventh Special Session, Annexes*, agenda item 2 (*b*), document TD/B/600, paras. 45-47.

[19] For details, see "Collection by the UNCTAD secretariat of information on restrictive business practices generally: report by the UNCTAD secretariat" (TD/B/C.2/AC.6/12 and Corr.1).

[20] See "Annual report on legislative and other developments in developed and developing countries in the control of restrictive business practices: 1978" (TD/B/C.2/AC.6/15). Earlier reports on this subject are, *inter alia*: "Information for the effective control of

In this regard, the Group of Experts has agreed in the context of the principles and rules that:

The [United Nations[21]] [UNCTAD[22]] should publish annually a report on developments in restrictive business practices legislation and on restrictive business practices affecting international trade, particularly the trade and development of developing countries, based upon official reports from Member countries and other reliable material. (Sect. G, provision 3.)

43. Close co-operation is maintained between the secretariat of UNCTAD and the Centre on Transnational Corporations with regard to the issue of information on restrictive business practices of transnational corporations and the activities of such corporations generally.

C. Technical assistance[23]

44. This issue has been examined in some detail by the Group of Experts, whose proposals are incorporated in the portion on technical assistance in section G, "International measures", of the principles and rules. In this regard it has been agreed:

[Implementation within UNCTAD of[24]] [Recommendations as to[25]] technical assistance, advisory and training programmes on restrictive business practices, particularly for developing countries:

(*a*) A model law or laws on restrictive business practices should be elaborated within UNCTAD in order to assist developing countries in devising their appropriate legislation. All States should provide necessary information and experience to UNCTAD in this connexion;

(*b*) Experts should be provided to assist developing countries, at their request, in formulating or improving restrictive business practice legislation and procedures;

(*c*) Seminars, training programmes, or courses should be held, primarily in developing countries, to train officials involved or likely to be involved in administering restrictive business practice legislation and, in this connexion, advantage should be taken *inter alia* of the experience and knowledge of administrative authorities especially in developed countries in detecting the use of restrictive business practices;

(*d*) A handbook on restrictive business practice legislation should be compiled;

(*e*) Relevant books, documents, manuals and any other information on matters related to restrictive business practices should be collected and made available, particularly to developing countries;

(*f*) Exchanges of personnel between restrictive business practice authorities should be arranged and facilitated;

(*g*) International conferences on restrictive business practice legislation and policy should be arranged;

(*h*) Seminars for an exchange of views on restrictive business practices among persons in the public and private sectors should be arranged. (Sect. G, provision 5.)

The Conference, at its fifth session, may wish to examine the agreed proposals of the Group for technical assistance, advisory and training programmes and to take appropriate actions, including decisions, in this regard.

D. The model law or laws[26]

45. As is apparent from the text agreed by the Group concerning technical assistance, advisory and training programmes, the model law or laws are viewed as an important component of such programmes. In line with the decision taken at the third session of the Third *Ad hoc* Group of Experts, the secretariat prepared a first draft of the model law or laws on restrictive business practices,[27] which will be examined at the sixth session of the Group in April 1979.

46. An important consideration is whether the model law or laws should be universal in application or applicable only to developing countries. If they are to be universal in application, the model law or laws could be viewed as a negotiable instrument, *inter alia*, to assist in the implementation of the principles and rules. On the other hand, if this is not to be the case the model law or laws would become essentially a matter for developing countries and for decision by them. It might be noted that the technical assistance, advisory and training programmes agreed by the Group of Experts, although primarily designed for developing countries, are not limited to those countries. In consequence, the Conference may wish to take a decision on whether the model law or laws on restrictive business practices are to be universally applicable or applicable only to developing countries.

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restrictive business practices affecting the trade and development of developing countries and the role of UNCTAD in the collection and dissemination of information: report by the UNCTAD secretariat" (TD/B/C.2/AC.6/6 and Corr.1 and 2) and "Review of major developments in the area of restrictive business practices: report by the UNCTAD secretariat" (TD/B/C.2/159 and Corr.1).

[21] Text proposed by Group B.

[22] Text proposed by the Group of 77.

[23] Conference resolution 96 (IV), sect. III, para. 3 (*e*).

[24] Text proposed by the Group of 77.

[25] Text proposed by Group B.

[26] Conference resolution 96 (IV), sect. III, para. 3 (*f*).

[27] *First draft of a model law or laws on restrictive business practices to assist developing countries in devising appropriate legislation* (United Nations publication, Sales No. E.79.II.D.6).

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Review and evaluation of the generalized system of preferences

Report by the UNCTAD secretariat

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CONTENTS

Introduction

1. The Special Committee on Preferences, in section VIII of its agreed conclusions on the generalized system of preferences (GSP), called for a comprehensive review towards the end of the initial period of the system "to determine, in the light of the objectives of Conference resolution 21 (II), whether the preferential system should be continued beyond that period".[1]

2. For most preference-giving countries, the initial period will expire in June 1981, which is the time-limit set by the Contracting Parties to the General Agreement on Tariffs and Trade for the waiver of the provisions of article I of the General Agreement.

3. The fifth session of the United Nations Conference on Trade and Development, which will take place barely two years before the end of this initial period, provides a good opportunity for the conduct of such a comprehensive review. The GSP has wide implications for trade relations between developed and developing countries. This report highlights the principles on which the system is based, its nature and trade effects, and against this background presents a number of policy recommendations for its maintenance and improvement.

CHAPTER I

Basic principles

4. At the first session of the United Nations Conference on Trade and Development, which met in 1964, tariff preferences in favour of developing countries was one of the key issues in the search for effective solutions to the trade problems of developing countries. The Conference adopted certain principles to govern international trade relations and trade policies conducive to development. In recommendation A.III.5, it recognized the urgent need for the diversification and expansion of the export trade of developing countries in manufactures and semi-manufactures and considered it desirable to obtain the widest possible agreement with respect to the principle of extending preferences and on the best method of implementing such preferences.

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* Incorporating documents TD/232/Corr.1 and 3.

[1] See Trade and Development Board decision 75 (S-IV) of 13 October 1970, annex.

5. At the second session of the Conference, held in 1968, the issue of preferences was at the centre of the negotiations. The Conference had before it the Charter of Algiers, adopted at the Ministerial Meeting of the Group of 77 in October 1967,[2] which set out, *inter alia*, the principles to be observed in implementing a generalized system of preferences. The Conference also had before it a report transmitted by the Secretary-General of OECD[3] setting out a number of general considerations regarding temporary special tariff treatment by developed countries in favour of all developing countries. At its second session the Conference adopted resolution 21 (II), in which the principle and objectives of preferences in favour of developing countries were formally accepted. In paragraph 1 of the resolution the Conference agreed that the objectives of the generalized non-reciprocal, non-discriminatory system of preferences in favour of the developing countries, including special measures in favour of the least advanced among the developing countries, should be: (*a*) to increase their export earnings; (*b*) to promote their industrialization; (*c*) to accelerate their rates of economic growth. A time-limit was set for settling the details of the preferential arrangements and a Special Committee on Preferences was established by the Conference to conduct the necessary negotiations.

6. The Special Committee on Preferences concluded its work of elaborating a generalized system of preferences in October 1970, at the second part of its fourth session. After intensive consultations on the preliminary offers of the OECD prospective preference-giving countries, arrangements concerning the establishment of a generalized, non-discriminatory, non-reciprocal system of preferences for the exports of developing countries to the markets of developed countries were drawn up and agreed upon. The agreed conclusions adopted by the Special Committee, of which the Board took note at its fourth special session, defined the technical, institutional and legal aspects of the system. In these agreed conclusions the Special Committee also welcomed with appreciation the joint declaration of several socialist countries of Eastern Europe announcing the measures which their countries intended to take to contribute to the attainment of the objectives of Conference resolution 21 (II). These measures consist of tariff preferences in the case of countries having a custom tariff[4] and of other special measures of a preferential nature designed to expand imports from developing countries.

7. At its fourth special session, held on 12 and 13 October 1970, the Trade and Development Board, by its decision 75 (S-IV), adopted the report of the Special Committeee on Preferences on its fourth session and took note of the agreed conclusions in that report. By their decision of 25 June 1971 the Contracting Parties to GATT decided to waive the provisions of article I of the General Agreement for a period of 10 years to the extent necessary to permit developed contracting parties to accord preferential tariff treatment to products originating in developing countries and territories.[5]

8. The General Assembly included the GSP as an integral part of the International Development Strategy for the Second United Nations Development Decade, and subsequently as an important element of the Programme of Action on the Establishment of a New International Economic Order and of the Charter of Economic Rights and Duties of States.[6] The GSP was also considered an important instrument in achieving the objectives of the Lima Declaration and Plan of Action on Industrial Development and Co-operation.[7] Resolution 96 (IV) adopted by the Conference at its fourth session, entitled "A set of interrelated and mutually supporting measures for expansion and diversification of exports of manufactures and semi-manufactures of developing countries", reaffirmed the importance of the GSP.

9. The nature of the GSP has been largely determined by the way preference-giving countries interpret the principles on which the system is based. Their attitude will also determine the scope of further changes in the system.

10. Conference resolution 21 (II) called for the establishment of a generalized, non-discriminatory and non-reciprocal system of preferences in favour of exports from developing countries to developed countries. Generalized preferences imply that preferences would be granted by all developed countries to all developing countries under a common system. In the negotiations leading to the adoption of the GSP, the developed countries were guided by the principle of equal "burden sharing", leaving it to each country to determine the scope and details of its scheme. The result was that the GSP as implemented consists of a series of individual schemes which differ in many respects.

11. Non-discrimination implies that the same preferences were to be granted to all developing countries. This concept presented great difficulty from the start, since there were no agreed objective criteria for defining or classifying countries on the basis of relative stages of economic development. The principle of self-election appeared to be the only remaining possibility--i.e. preferences would be granted to any country or territory claiming developing status; however, individual preference-giving countries might decline to accord such preferences on grounds which they would hold compelling. An additional proviso was that such *ab initio* exclusion of a particular country would not be based on competitive considerations. As a result, each preference-giving country has its own list of beneficiaries and there are thus certain differences among these lists.

12. Because of its importance as a market, the list of beneficiaries of the United States scheme has given rise to

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[2] See *Proceedings...*, vol. I, *Report and annexes* (United Nations publication, Sales No. E.68.II.D.14), annex IX.

[3] *Ibid.*, vol. III, *Problems and policies of trade in manufactures and semi-manufactures* (United Nations publication, Sales No. E.68. II.D.16), document TD/56.

[4] The preference-giving socialist countries of Eastern Europe having a customs tariff now include Bulgaria, Czechoslovakia, Hungary, Poland and the USSR.

[5] Generalized system of preferences: Decision of 25 June 1971. See GATT, *Basic Instruments and Selected Documents, Eighteenth Supplement* (Sales No. GATT/1972-1), p. 24.

[6] See General Assembly resolutions 2626 (XXV) of 24 October 1970, 3202 (S-VI) of 1 May 1974 and 3281 (XXIX) of 12 December 1974 respectively.

[7] Adopted by the Second General Conference of UNIDO, held at Lima, Peru, from 12 to 26 March 1975 (ID/CONF.3/31, chap. IV).

the greatest controversy, more especially because a number of developing countries have been excluded from the scheme since its inception, in particular countries members of OPEC, on the basis of certain criteria specified in the relevant United States legislation. The United States, however, was not alone in placing conditions on eligibility for preferential treatment. Canada, for example, excludes countries which are not entitled to MFN treatment. Japan reserved the right to withdraw beneficiary status within three years from those beneficiary countries which were still invoking article XXXV of GATT or discriminated in their trade against Japan. The socialist countries of Eastern Europe reserved the right to exclude developing countries which did not have normal trade relations with them, or which discriminated in trade against them. Some of these countries also exclude those developing countries whose *per capita* income is higher than theirs.

13. The third principle—non-reciprocity—is what makes the GSP stand out as a landmark in trade relations between developed and developing countries. For the first time, developed countries agreed to make special tariff concessions to developing countries without seeking reciprocity. This deviation from the MFN principle was a tacit recognition of the need to apply special and more favourable treatment to countries at lower levels of economic development. The impact of this change of attitude has been felt even outside the GSP, in particular in the Lomé Convention,[8] which also provides for non-reciprocity.

14. It is clear, however, that under the GSP the principle of non-reciprocity has not been fully observed since, as was seen above, a number of developing countries must meet certain conditions before they can become eligible for preferences under some schemes. The conditions set for such eligibility amount to implicit reciprocity. In this connexion, it may be recalled that the Conference, in resolution 96 (IV), agreed that the GSP should not be used "as an instrument of political or economic coercion or of retaliation against developing countries, including those that have adopted or may adopt, singly or jointly, policies aimed at safeguarding their national resources".

CHAPTER II

Nature and scope of the generalized system of preferences

15. The GSP now consists of 16 separate schemes involving 19 market-economy countries and six socialist countries of Eastern Europe.[9] The countries or groups of countries applying the schemes and the dates of entry into force of such schemes are: Australia (1966); Austria (1 April 1972); Bulgaria (1 April 1972); Canada (1 July 1974); Czechoslovakia (28 February 1972); EEC (1 July 1971); Finland (1 January 1972); Hungary (1 January 1972); Japan (1 August 1971); New Zealand (1 January 1972); Norway (1 October 1971); Poland (1 January 1976); Sweden (1 January 1972); Switzerland (1 March 1972); United States of America (1 January 1976); USSR (1 January 1965).

16. It should be noted that Australia, which had been applying a system of tariff preferences in favour of developing countries prior to the adoption of the GSP, implemented a new and substantially broader scheme under the GSP on 1 January 1974. Similarly, the USSR scheme had been introduced prior to the GSP in accordance with Conference recommendations A.III.2 and A.III.1, adopted at the first session of the Conference, in 1974. An important development occurred on 1 January 1974, when three preference-giving countries (Denmark, Ireland and the United Kingdom) aligned their schemes in effect since 1972 to that of EEC as a result of their accession to the Community.

17. Although the GSP consists of a series of individual schemes, it has many elements in common. These common elements, and changes and improvements made in the various schemes, are briefly described in the paragraphs which follow.

A. Beneficiaries

18. Since the introduction of the schemes, most of the preference-giving countries have substantially extended the lists of beneficiaries: this constitutes one of the main improvements of the system. At present, all developing countries members of the Group of 77 are recognized as beneficiaries in most schemes, the exception being those that are affected by *ab initio* exclusions referred to above. In addition, the following countries not members of the Group of 77 enjoy preferences in one or more of the schemes: Albania, Bulgaria (which is itself a preference-giving country), China, Greece, Israel, Mongolia, Muscat, Nauru, Portugal, Samoa, Spain, Tonga, Turkey. Moreover, the schemes also extend preferences to designated dependent territories.

B. Product coverage

19. In general, the GSP covers all manufactured and semi-manufactured products in CCCN chapters 25-99, the main exceptions being textiles, leather and petroleum products. Some notable changes and improvements have been made with respect to the product coverage in these chapters. In 1974 Australia extended preferences to a wide range of products under its revised scheme. In 1975 Austria extended preferences to practically the entire textile sector. In 1976 Bulgaria removed all the exceptions from its scheme. In 1976 New Zealand added a large number of products under the revised scheme. Initially, EEC granted preferential treatment with respect to cotton textiles only to those beneficiaries which were signatories of the Long-term Arrangement Regarding International Trade in Cotton Textiles[10] or to those which undertook vis-à-vis the Community commitments similar to those existing under

[8] Convention between the European Economic Community and 46 African, Caribbean and Pacific States, signed at Lomé, Togo, on 28 February 1975 (*Official Journal of the European Communities*, vol. 19, No. L 25, 30 January 1976).

[9] The German Democratic Republic does not have a customs tariff but, after endorsing in 1973 the joint declaration of socialist countries of Eastern Europe, undertook to apply other economic and foreign trade measures which, as a rule, are of a preferential nature designed to expand imports from the developing countries.

[10] See GATT, *Basic Instruments and Selected Documents, Eleventh Supplement* (Sales No. GATT/1963-1), p. 25.

that Arrangement. In 1977 all beneficiaries of the scheme (except Romania) became eligible for preferences with respect to cotton textiles and substitutes. Following the regular reviews of the product coverage of its scheme, the United States has added a number of new products.

20. In contrast to the broad coverage of industrial products, the GSP covers only selected agricultural products in CCCN chapters 1-24, and the coverage varies from one scheme to another. The product coverage in these chapters has been expanded significantly by EEC since 1974 and to varying degrees under the other schemes. Also, as part of their contribution to the GATT multilateral trade negotiations, the following countries added a number of tropical products to their schemes, generally as of 1 January 1977: Australia, EEC, Finland, New Zealand, Norway, Sweden and Switzerland. On 31 March 1977 Canada introduced tariff measures to implement on a provisional basis its offer on tropical products in accordance with the agreement reached at the multilateral trade negotiations. Also, in the framework of measures in favour of the least developed countries, Norway extended preferences to all products imported from such countries as of 1 June 1976. Hungary introduced a similar provision on 1 January 1978.

C. Depth of tariff cut

21. The following preference-giving countries grant duty-free treatment to all products covered by their respective schemes: Finland, Norway, Sweden, United States of America, USSR. EEC, and in general Japan and Switzerland, grant duty-free treatment on eligible industrial products and varying degrees of tariff cuts on eligible agricultural products. Australia grants generally a reduction of 10 percentage points below the MFN rates, including duty-free treatment. Austria grants generally a 50 per cent reduction of the basic rates on industrial products and various tariff cuts on agricultural products. Bulgaria and Czechoslovakia grant a 50 per cent reduction of MFN rates. Canada grants the British preferential rate or the MFN rate reduced by one third, whichever is the lower. Hungary grants reductions ranging from 50 to 100 per cent of MFN rates on eligible products. New Zealand grants varying degrees of tariff cuts, including total elimination of tariffs, on products covered by its scheme. Poland also grants varying degrees of tariff cuts, including total elimination of duties.

22. Major improvements have been made during the operation of the GSP, in particular in those schemes which at the outset did not provide for duty-free treatment. On 1 April 1974 Switzerland implemented the second stage of its scheme by applying duty-free treatment to most industrial products covered by the scheme and also to most agricultural products: initially, the tariff cut on these products amounted to 30 per cent. In 1975 Austria implemented the second stage of its scheme by increasing the preferential margin from 30 to 50 per cent of the basic rates for all products in CCCN chapters 25-99 covered by the scheme, with the exception of the newly added cotton textiles, for which the margin was set at 35 per cent. In May 1976 Bulgaria increased the preferential margin from 30 to 50 per cent of the MFN rates on all products covered by the scheme and in June 1977 extended duty-free entry to all imports from the least developed countries. The revised scheme introduced by New Zealand in July 1976 resulted in a significant improvement of the preferential tariff treatment. Canada extended duty-free treatment for handicraft products originating from beneficiaries of the scheme. After a full-scale review of the scheme in 1976, Australia increased the preferential margin on a large number of products. Also, EEC and Japan increased the preferential tariff cuts on agricultural products.

D. Safeguard mechanism

23. The safeguard mechanism applied under the GSP can be classified into two broad categories: escape-clause type measures and *a priori* limitations.[11]

24. Generally all schemes contain escape-clause provisions whereby the preference-giving country reserves the right to withdraw, in whole or in part, the preferential tariff treatment when the product in question is imported in such increased quantity as to cause or threaten to cause serious injury to domestic producers of like or directly competitive products. According to information received from preference-giving countries, this escape clause has been resorted to only occasionally and only by some countries. It was invoked by the United Kingdom in 1973 with respect to certain leather imports from certain Latin American countries. It was also invoked in 1975 by Canada with respect to rubber footwear imported from countries other than those of the Commonwealth and in 1977 with respect to colour television sets. Canada has also excluded two items from the scheme on these grounds. As of 1 September 1977 Norway withdrew preferences from the Republic of Korea with respect to some leather and textile products. With effect from 1 July 1978, Austria withdrew two agricultural products from the scheme. Following the regular reviews of its scheme, the United States has deleted a number of articles from the list of those eligible for preferential treatment.

25. *A priori* limitations serve to regulate preferential imports on the basis of the trade performance of beneficiaries, on a collective and/or individual basis. Under the schemes of EEC and Japan, this mechanism takes the form mainly of temporary suspension of preferential treatment when preferential imports reach predetermined limits established in accordance with a specific formula. The United States scheme relies on "competitive need criteria" for excluding individual beneficiaries from preferential treatment with respect to particular products for which these countries are considered to be competitive in the United States market. The scheme of Australia incorporates both quantitative limitations and competitive need exclusions. The nature of these *a priori* limitations is briefly described below.

European Economic Community

26. EEC applies *a priori* limitations on preferential imports of six agricultural products in CCCN chapters 1-24 and of industrial products in CCCN chapters 25-99 in the form of tariff quotas (sensitive products), tariff ceilings

[11] For a discussion of the concept and the application of *a priori* limitations, see *Operation and effects of the generalized system of preferences: selected studies submitted to the fifth session of the Special Committee on Preferences* (United Nations publication, Sales No. E.73.II.D.16), document TD/B/C.5/3, chap. II.

(special semi-sensitive products), ceilings (semi-sensitive and non-sensitive products) and maximum country amounts.

27. Preferential imports of products subject to tariff quotas can be made from beneficiaries only up to the amount set for this purpose at the Community level and imports exceeding the tariff quotas become subject to the MFN rate. The tariff quotas are allocated according to fixed percentage shares among the member States. However, preferential imports from individual beneficiaries within these tariff quotas cannot exceed maximum amounts ranging from 10 to 50 per cent of the Community tariff quota. The normal tariff is reintroduced immediately after preferential imports from any single beneficiary reach the maximum amount.

28. Ceilings are "normally" calculated as the sum of c.i.f. values of Community imports in a reference year of the products in question from beneficiaries other than those enjoying special preferences granted by the Community ("basic amount") and of 5 per cent of the c.i.f. value of imports, also in a reference year, from other sources, including those enjoying special preferences ("supplementary amount"). For products subject to tariff ceilings, the decision to reintroduce the tariff is discretionary when the ceilings are reached but mandatory when the maximum country amount is reached. For products subject to ceilings, the decision to reintroduce the tariff is discretionary with regard to both ceilings and maximum country amount. However, among this category of products, the Community has designated a list of products for which special surveillance is set for a rapid cut-off of preferential treatment if the ceiling or maximum country amount is reached.

29. The tariff quotas, which are arbitrarily set, have been far below the traditional level of imports from beneficiaries. Where the formula has been used, the reference years for the basic (and supplementary) amount have lagged far behind the year of application of the scheme, with the result that ceiling amounts for products of special export interest to developing countries have also fallen short of current EEC imports from such countries.

30. Improvement in the administration of preferential imports introduced by the Community as of 1975 includes the drastic reduction in the number of sensitive products subject to tariff quotas and their transfer to the category of special semi-sensitive products, and the introduction of a Community reserve for a number of the remaining products subject to tariff quotas. The Community reserve can be allocated among member States to facilitate a better utilization of the quotas. However, the trade effects of these liberalization measures have been largely offset by the introduction of special lower maximum amounts for selected beneficiaries for products subject to tariff ceilings as of 1975 and for textiles as of 1977. In the case of textiles the special maximum amount is allocated not only at the Community level but also for each member State. Thus, by relying increasingly on the maximum country amounts, the Community has introduced further selectivity and differential treatment among beneficiary countries, which is inconsistent with one of the basic principles of the GSP, i.e. non-discrimination.

31. In 1977, EEC introduced a special measure in favour of the least developed countries, exempting them from the levying of tariffs when maximum country amounts are reached with respect to non-sensitive industrial products and textiles. This exemption was extended to ceilings in 1978 with respect to the same product categories.

Japan

32. Products in CCCN chapters 25-99 covered by the scheme are subject to ceiling limitations. These products are subdivided into a number of product groups for purposes of setting and administering the ceilings. The ceiling for each product group is set for each fiscal year (April/March) and is equal to the value (or quantity) of imports from beneficiaries in a reference year ("basic quota") plus 10 per cent of the value (or quantity) of imports from other sources in the year two years before the year for which the ceiling is set. Preferential treatment for all beneficiaries is suspended once the ceiling has been reached. Also, preferential treatment for a beneficiary is suspended for a particular group of products if preferential imports from that beneficiary exceed 50 per cent of the ceiling.

33. Preferential imports under the ceilings are administered according to one of the following three methods, depending on the sensitivity of the product groups:[12] daily control, monthly control, or prior allotment.

34. As in the case of EEC, the ceilings set by Japan often fall short of its current imports from beneficiaries because of the considerable time lag inherent in the base year. 1968 served as the base year for calculation of the basic quota from the entry into force of the scheme until fiscal year 1977, when the base year was moved to 1975. The previous formula was, however, maintained for four sensitive products, while ceilings for 49 other products were based on a combination of 150 per cent of the value of imports from beneficiaries in 1968 plus 10 per cent of the value of imports from other beneficiaries in 1975.

35. An improvement was made in 1973, when Japan introduced a system of flexible administration of ceilings whereby preferential imports would be allowed to exceed ceilings or maximum amounts until such a time as it might later be decided to reintroduce the MFN rate of duty. This system was applied to over half of the ceilings and to two thirds of the maximum amounts in fiscal year 1978. The flexible administration of preferential imports is applied to products posing no threat or injury to Japan's domestic industry. Also, the number of product groups has tended to be reduced, allowing greater flexibility in the utilization of ceilings.

United States of America

36. The "competitive need criteria" in the United States scheme provide for the withdrawal of preferential treatment for a particular product from a beneficiary when United States imports in a calendar year of such article from such beneficiary exceed $25 million or 50 per cent of total United States imports of the article. Each year the $25 million limit is raised in proportion to the previous year's growth of the United States gross national product. Moreover, the 50 per cent limit does not apply in cases

[12] For fuller details of the administration of ceilings, *ibid.*, document TD/B/C.5/6, paras. 53-60.

where a like or directly competitive product is not produced in the United States.

37. As a result of the growth of GNP the value limit stood at $33.4 million in 1978. Also, the list of products not produced in the United States has been expanded, thereby making them exempt from the 50 per cent limitation.

38. Despite these improvements, the competitive need criteria have had a very restrictive effect on the scheme. In 1977 about 36.4 per cent of United States imports from beneficiaries of products eligible for GSP treatment was denied such treatment on this account. The number of countries affected has also been increasing and stood at 38 in 1978.

Australia

39. Preferential imports of selected products are limited by annual tariff quotas. As a result of the 1976 review, 13 quotas were abolished, reducing the total number to 31. On the whole, the quota levels represent a small portion of current imports from beneficiaries of products covered by the quotas.

40. Australia considers that a basic purpose of its scheme is to assist developing countries to become competitive in its market. Therefore, preference will not be granted to those products where developing countries are already competitive, or are likely to quickly become competitive, in the Australian market. There are no objective criteria of what is meant by "competitiveness"; however, under the new procedures introduced on 1 July 1976, proposals for the addition or withdrawal of specific products are referred to the Industries Assistance Commission for inquiry and report.

41. The 1976 review of the scheme resulted in the exclusion of seven beneficiary countries in respect of products falling within 47 tariff lines. Moreover, the inquiry and report procedure has begun to be applied. It seems that competitive need exclusions are not permanent, since preferential treatment in some cases has been re-established.

E. Rules of origin

42. To qualify for preferential treatment, goods must satisfy the direct consignment rule and comply with the origin criteria specified in the respective schemes.

43. In general, goods are considered to have originated in a preference-receiving country if they have been wholly produced or have undergone substantial transformation in that country. Western European preference-giving countries and Japan base their requirements for substantial transformation on the process criterion, i.e. the transformation must be such as to result in the exported goods being classified under a CCCN heading other than that or those relating to the materials or components used in production. There are, however, a number of exceptions to this rule, for which additional requirements are specified in lists A and B. Lists A prescribe either working or processing which, although resulting in a change of tariff heading, are not deemed sufficient for conferring origin on the products obtained, or working or processing which are deemed sufficient for conferring origin only under certain conditions, such as compliance with a value-added rule. Lists B, on the other hand, prescribe specific processes of production which are regarded as conferring origin, although the materials used may fall in the same CCCN heading as the product obtained.

44. Preference-giving countries applying the process criterion, have gradually bilateralized their origin rules through deletion of process requirements in lists A and enlargement of lists B. They have also gradually harmonized the process requirements so that their lists A and B now concord to a large extent with one another. On the whole, however, lists A still contain stringent requirements, in particular where multistage processes apply, as in the case of textiles. There is also considerable scope for adding more liberal qualifying processes in lists B.[13]

45. The preference-giving countries which define substantial transformation in terms of the percentage criterion include Australia, Canada, Czechoslovakia, Hungary, New Zealand, Poland and the United States. Substantial transformation takes place if the value of imported materials does not exceed a specified percentage of the value of the finished product, or if the value of originating material and certain domestic costs of processing are equal or exceed a specified percentage. The United States rule is the only rule drawn up exclusively in terms of domestic content (cost of domestic materials and direct processing) which cannot be expressed in an inverse manner, i.e., in terms of non-originating materials or added value.

46. The method of calculation and the minimum percentage requirement for the domestic content or non-originating content vary from scheme to scheme. In Australia, Czechoslovakia, Hungary, New Zealand and Poland the percentage for domestic content is 50; in Canada the percentage for non-originating content is 40; in the United States for domestic content and direct processing it is 35; and for other preference-giving countries applying the percentage criterion in addition to the process criterion, the requirement for domestic content varies from 50 per cent to as much as 95 per cent.

47. The other main condition for qualifying for preferential treatment relates to direct consignment. Goods eligible for preferences must, in general, be consigned directly to the preference-giving country, transportation from the beneficiary being effected without passing through the territory of any other country, or alternatively passing through the territory of one or more countries, with or without trans-shipment or temporary storage, provided that the goods remain under customs control and do not enter into trade or consumption there.

48. The direct consignment rule initially applied by Australia, Japan and the United Kingdom (prior to joining EEC) under their respective origin requirements provided that at the time the goods left the country it must be the intention of the exporter to ship them to the preference-giving country concerned. This provision was subsequently relaxed in order to facilitate preferential imports from developing countries, in particular from land-locked countries. Australia has dropped altogether the direct consign-

[13] See *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* (United Nations publication, Sales No. E.75.II.D.9), document TD/B/C.5/WG(IV)/2.

ment requirements. The United States is the only preference-giving country still requiring that the final destination be known at the time of exportation of goods. EEC, Japan and Switzerland permit transportation through third countries only if justified for geographical reasons or exclusively on account of transport requirements.

49. A condition which is common to practically all rules is that products must not have entered into commerce in the country of transit. The prohibition of the resale of goods in transit causes many difficulties for exporting countries which do not have direct trade links with preference-giving countries. A relaxation of this rule has, however, been made by Austria, Finland, New Zealand, Norway and Sweden.

50. Since the introduction of GSP, various forms of cumulative origin have been adopted under the rules of preference-giving market-economy countries. Australia and New Zealand grant full and global cumulation in that all processes or "value added" in any of the preference-receiving countries may be added up or cumulated in order to determine whether the percentage requirement has been satisfied. EEC grants partial cumulation to the Association of South-East Asian Nations, the Central American Common Market and the Andean Group. Cumulation applies only to inputs which, having acquired originating status in one preference-receiving country, undergo further processing in another preference-receiving country which is a member of the same grouping, before exportation to EEC. The EFTA countries and Japan have also introduced a system of partial region cumulation. In the case of the United States, full cumulation may be granted to an association of preference-receiving countries which is a free-trade area or a customs union. In this case the percentage requirement is increased from 35 per cent to 50 per cent and the competitive need criterion is applied to the association as a single area. Because of these two restrictive elements, no interest has been expressed so far by beneficiaries in receiving cumulative treatment.

51. The developing countries have requested from the outset that they should be treated by all preference-giving countries as one area for purposes of origin, i.e. that they should be accorded full and global cumulative origin. Indeed, full and global cumulation for developing countries as a whole could significantly relax the substantial transformation requirement, facilitate harmonization of various origin systems under the GSP, and more importantly promote industrial and trade co-operation among the GSP beneficiaries.

52. Under the GSP, claims for preferential treatment must be supported by certificates of origin (form A). This form is accepted by almost all preference-giving countries; only New Zealand requires presentation of a different certificate, while Australia requires, in principle, a separate declaration signed by the exporter on the invoice, but form A is accepted as an alternative. Since introduction of the GSP, form A has been revised to reflect the rules of the United States and Canada introduced at a later stage. An important relaxation of rules regarding documentary evidence is that preference-giving countries no longer require notification of names and specimens of signatures of certifying authorities. Notification is required only with respect to the names and addresses of the governmental authorities empowered to issue the certificates of origin, together with impressions of stamps used by these authorities. Compliance with this notification requirement is vital, since a beneficiary which has not satisfied this requirement is unable to claim preferential treatment for the goods. There are still a number of developing countries which have not fulfilled the notification requirements with respect to one or more preference-giving countries.

CHAPTER III

Trade implications of the generalized system of preferences

53. In view of the relatively short time the GSP has been in operation[14] and of the prevalence of inflation and exchange-rate instability, and in view also of the lack of detailed trade and other relevant data, it would be difficult to make a meaningful evaluation of the GSP in terms of the attainment of the three objectives of the system. However, the trade and tariff data received from most preference-giving countries provide a clear indication of the positive effects which generalized tariff preferences have had on the export trade of the beneficiary countries.[15]

54. The annex to this report summarizes by two broad product categories (agricultural products in CCCN chapters 1-24 and industrial products and raw materials in CCCN chapters 25-99) imports into preference-giving countries[16] from beneficiaries of their respective schemes in 1976. In order to arrive at comparable trade figures, estimates had to be made for certain preference-giving countries which supplied only partial information, and the import values expressed in national currencies of preference-giving countries had to be converted into dollars.

55. As shown in the annex, total imports of EEC and 10 other OECD preference-giving countries from beneficiaries of their respective schemes amounted to \$157.9 billion in 1976. Almost 50 per cent, or \$78.1 billion, of these imports were MFN dutiable and could therefore fall within the purview of the GSP. However, only \$26.3 billion, or one third, of these dutiable imports consisted of products covered by the schemes, and \$10.5 billion, or 40 per cent, of these covered imports are estimated to have actually received preferential treatment in 1976.[17] Industrial products in CCCN chapters 25-99 constituted the bulk of imports covered by the GSP and of those which received preferential treatment.

56. EEC (\$4.4 billion), Japan (\$1.8 billion) and the United States (\$3.2 billion) together accounted for nearly 90 per cent of the total preferential imports of all OECD

[14] The scheme of the enlarged EEC became operative on 1 January 1974, the scheme of Canada entered into force in July of the same year, and that of the United States of America only in January 1976.

[15] See the replies received from preference-giving countries (TD/B/C.5/30 and addenda).

[16] Australia, Austria, Canada, EEC, Finland, Hungary, Japan, New Zealand, Norway, Sweden, Switzerland, United States of America, USSR.

[17] Preferential imports from Australia, Canada and New Zealand were estimated on the basis of other GSP statistics available to the secretariat. See foot-notes to the table in the annex.

preference-giving countries. This underlines the importance of these three schemes for the export trade of the developing countries. These are also the schemes which are beset with limitations or competitive need exclusions. Through a highly complex system of tariff quotas, ceilings, maximum country amounts and administrative procedures, EEC and Japan control and limit the preferential imports of all industrial products, and EEC also of certain major agricultural products. The United States, on the other hand, excludes from preferential treatment individual beneficiary countries with respect to those products covered by the scheme for which such beneficiaries are considered competitive. It is estimated that the preferential imports in 1976 under these three schemes would have been greater by about $4 billion to $5 billion, or some 50 per cent, had there been no *a priori* limitations and competitive need exclusions. In addition to their immediate restrictive effects on preferential trade, these limitations and exclusions generate uncertainty about preferential treatment and thereby inhibit investments in the beneficiary countries for expansion of the existing or the establishment of new capacities for production of goods to be exported under the GSP.

57. The latest information provided to the UNCTAD secretariat by preference-giving socialist countries of Eastern Europe relates to 1975 data and only concerns Hungary and the USSR. Total preferential imports of these two preference-giving countries in that year amounted to $1.7 billion. If this figure is added to the figure of $10.5 billion for total preferential imports of OECD preference-giving countries in 1976, a total of $12.2 billion is obtained. Certainly, this figure would have been much larger, had 1976 data been available for the two socialist countries and had data on preferential imports also been available from the other socialist preference-giving countries, i.e. Bulgaria, Czechoslovakia and Poland.

58. It is difficult to compare these aggregate figures with earlier years, because the schemes were implemented at different times and the available information varies from scheme to scheme with respect to detail. Studies published by the UNCTAD secretariat on individual schemes indicate that preferential trade has grown considerably, even in the face of world-wide recession in 1974-1975. The growth[18] in preferential imports was 68 per cent for EEC from 1974 to 1976 (an average annual rate of 34 per cent); 377 per cent for Japan for fiscal year 1972 to fiscal year 1976 (an average annual rate of 94 per cent) and 27 per cent for the United States from 1976 to 1977, the first two years of the scheme's operation.[19] The growth of preferential imports for other OECD preference-giving countries for which such information is available was: 615 per cent for Finland for 1972-1976 (an average annual rate of 154 per cent), 170 per cent for Sweden for 1973-1976 (an average annual rate of 57 per cent) and 41 per cent for Switzerland for 1973-1976 (an average annual rate of 14 per cent). The growth in preferential imports for Hungary and the USSR, respectively, was 114 per cent for 1973-1975 (an average annual rate of 57 per cent) and 181 per cent for 1971-1975 (an average annual rate of 45.3 per cent).

59. Another important indication of GSP performance is the ratio of preferential imports to that of imports covered by the scheme. This utilization rate indicates the extent to which beneficiaries are able actually to obtain preferential treatment on products which are eligible for GSP treatment. These ratios reflect not only the efforts on the part of traders to qualify for imports under the GSP but also the limitations on preferential imports under certain schemes such as tariff quotas, ceilings, maximum country amounts and competitive need exclusions. They also reflect difficulties which arise in complying with the rules of origin and other requirements of the schemes.

60. The 1976 rates of utilization ranged from 12.6 per cent for the scheme of Austria[20] to 76.3 per cent for the scheme of Sweden. Rates for other schemes in 1976 were: Finland: 71.6 per cent; Japan: 51.9 per cent; Norway: 50.5 per cent; Switzerland: 40.5 per cent; United States: 48.4 per cent; EEC: 33.3 per cent (estimated). Improvement in these ratios in the future could be greatly facilitated if the individual schemes were liberalized by reduction or elimination of the *a priori* limitations which some of them contain and through improvements in the rules of origin and deeper tariff cuts where duty-free treatment is not granted.

61. Despite the inadequacies of some schemes, preferential imports have grown remarkably during the short time the GSP has been in operation, owing to the joint efforts of preference-giving countries, which have been continuously improving their schemes, and the preference-receiving countries, which have intensified their efforts to utilize the preferential tariff advantages. It should be noted that as a result of these efforts for a better utilization of preferences, growth rates for preferential imports have generally exceeded those for imports eligible for preferences.

62. The trade data in the annex indicate also the scope for expansion of preferential trade. The maximum possible level of preferential imports is the level of dutiable imports. As mentioned above, in 1976 only one third of the MFN dutiable imports of the OECD preference-giving countries from beneficiaries were covered by their respective schemes, and only an estimated 40 per cent of these imports received preferential treatment. It would appear, therefore, that major efforts should be made to extend the product coverage and eliminate or significantly liberalize the other constraints on preferential imports so that the preferences can be utilized to the maximum.

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[18] These growth rates are based on data expressed in the national currency of each preference-giving country (and units of account for EEC) and therefore do not give rise to the distortions which could occur if the rates were calculated on the basis of values expressed in dollars.

[19] Preferential imports of the United States in 1977 amounted to $3.9 billion.

[20] This relatively low utilization rate is due to the fact that eligible imports include such important products as petroleum, bananas, raw coffee and cocoa beans, on which MFN duties have been temporarily suspended. Consequently, these products were excluded from the value of preferential imports in 1976. Had these products also been excluded from the total for eligible imports, the utilization rate of the Austrian scheme would be comparable to the rates for the schemes of other EFTA members.

CHAPTER IV

The generalized system of preferences and the multilateral trade negotiations

63. At the ministerial meeting in Tokyo in 1973 it was agreed, *inter alia*, that the multilateral trade negotiations should aim to secure additional benefits for the international trade of developing countries. The Ministers recognized the importance of the application of differential measures to developing countries in ways which would provide special and more favourable treatment for them in areas of the negotiations where this was feasible and appropriate. They also recognized the importance of maintaining and improving the GSP.[21]

64. At the fourth session of the Conference, the developing countries indicated the specific areas of major importance to them and where they expected concessions from the developed countries in the tariff negotiations. In particular, they called for the binding of commitments and concessions in their favour; the inclusion of all developing countries as beneficiaries in the schemes of generalized preferences; advance implementation of concessions in their favour; special priority in the scope, content and depth of tariff concessions for tropical products requested by developing countries on a non-reciprocal basis and, as appropriate, on a preferential basis. In addition, the developing countries requested deeper-than-formula tariff cuts for products of interest to them which were not covered by the GSP; the binding in GATT of preferential tariff margins, and effective compensation in the event of the erosion of preferential margins resulting from MFN tariff cuts.[22]

65. At the time of writing, it appeared that the major concerns of the developing countries regarding the erosion of their GSP advantages, as expressed in the Tokyo Declaration and in Conference resolution 91 (IV), were not heading for a satisfactory conclusion. MFN tariff reductions in the multilateral trade negotiations were bound to erode GSP tariff margins across the board for manufactured and semi-manufactured products covered by the GSP in CCCN chapters 25-99. Agricultural products in CCCN chapters 1-24 would also be affected to the extent that the MFN tariffs were reduced.

66. Developing country exports of industrial products are likely to be adversely affected by the multilateral trade negotiations in two ways: first, practically all industrial products covered by the schemes will be subject to MFN tariff cuts; second, sensitive industrial products, which are excluded from the majority of schemes will also most likely be placed on full or partial exceptions lists as a result of the negotiations—that is, there will be no MFN tariff cuts or only lower-than-average cuts on these products. In the first case there will be a significant erosion of existing GSP margins and in the second case the developing countries stand to receive less-than-average or no MFN cuts on products not covered by the GSP which will be far from sufficient to compensate them for erosion of the GSP margins. For these reasons, and because of the harmonizing effect of the generally accepted tariff-cutting formula,[23] the expected erosion of GSP margins will generally be greater than the average over-all tariff cut resulting from the negotiations. Thus, the trade expansion effects resulting from high GSP margins will not be preserved.

67. The principal benefits in the tariff field which could accrue to developing countries from the multilateral trade negotiations arise from MFN cuts on, or inclusion in the GSP of, tropical products, which are produced largely by developing countries, and from MFN tariff cuts on products excluded from the GSP, provided such products are not placed on the exceptions lists. However, in contrast to the trade expansion effects of GSP margins resulting from both trade diversion and trade creation, the developing countries can benefit, together with other countries, only from the trade creation which may result from MFN cuts on products not covered by the GSP.

68. Preliminary analysis of the static effects of the negotiations on preferential margins under the schemes of EEC, Japan and the United States, which together account for more than 90 per cent of GSP imports by OECD preference-giving countries, indicates that the trade-weighted average pre-Tokyo GSP tariff margin on industrial products of 8 per cent would be reduced to 4.7 per cent as a result of the application of the tariff-cutting formula. This 3.3 percentage point reduction in the GSP margin represents a 40 per cent reduction in average preferential tariff advantages to the beneficiaries of the three schemes. If the negotiating authority contained in the United States Trade Act of 1974, wherein all duties of 5 per cent or below can be reduced to zero, is taken into account, the 8 per cent pre-Tokyo average margin for the three major schemes would be reduced to 5.5 per cent, representing a decline of 30 per cent in preferential tariff advantages. Moreover, an across-the-board application of the tariff-cutting formula to industrial products represents a decline in the tariff revenue forgone of $203.8 million, or 41.6 per cent of the pre-Tokyo amount. This decline is an indication of the loss of the potential advantages to traders and/or consumers under the three schemes. If, in addition, tariffs of 5 per cent or less are reduced to zero in the case of the United States, the decline in tariff revenue forgone would amount to $246.7 million, or 50.3 per cent. Furthermore, the harmonizing effect of the tariff formula would radically change the structure of GSP margins. Imports of products covered by the three schemes are fairly evenly distributed over a wide range of pre-Tokyo tariff margins, including high margins in the 20-30 per cent range which have a high

[21] See the Declaration of Ministers approved at Tokyo on 14 September 1973 (GATT, *Basic Instruments and Selected Documents, Twentieth Supplement* (Sales No. GATT/1974-1), p. 19), paras. 2 and 5.

[22] See Conference resolution 91 (IV), sect. II.

[23] The Swiss formula accepted as the "working hypothesis" in the negotiations, is expressed as follows:

$$Z = \frac{ax}{x + a}$$

where: Z is the post-Tokyo Round rate;
x is the initial pre-Tokyo Round rate;
a is a constant.

It should be noted that this formula is designed to have a harmonizing effect, i.e., the higher the pre-Tokyo Round MFN rate, the deeper will be the tariff cut. Also, the higher is the coefficient "a", the less will be the post-Tokyo Round tariff reduction. In this analysis, "a" is equal to 14, as originally proposed under the Swiss formula.

trade expansion effect. The post-Tokyo distribution of GSP trade would, as a consequence of the harmonizing effect of the tariff formula, be largely concentrated on the lower range of tariff margins (up to 7 per cent) which, by contrast, will significantly reduce the trade expansion potential of the GSP. In addition, a substantial amount of imports ($1.7 billion) on which beneficiaries at present have a preferential margin under the United States scheme could lose the advantage of these preferences because the products would become free of any MFN duty.

69. Preliminary estimates by the UNCTAD secretariat of the trade expansion effects of the GSP and the MFN tariff cuts resulting from the multilateral trade negotiations for industrial products covered by the GSP under the combined schemes of EEC, Japan and the United States, as measured by the volume of trade creation and trade diversion, support the static implications of the negotiations on the GSP discussed above. Taking the pre-Tokyo MFN tariff rates on industrial products covered by the three major schemes[24] as the GSP margins in 1976, the combined trade expansion effects of these three schemes would have amounted to some $5.7 billion. By contrast, the post-Tokyo GSP margins would have generated a trade expansion of $3.6 billion, representing a 37 per cent reduction in trade relative to the pre-Tokyo situation. This post-Tokyo trade expansion would be lower, amounting to $3.4 billion, or 40 per cent below the pre-Tokyo figure, if the United States should eliminate MFN tariffs of 5 per cent or less, as authorized in the 1974 Trade Act.

70. Thus, these preliminary estimates, on both a static and a dynamic basis, support the conclusion that the commitments to maintain the GSP, as set out in the Tokyo Declaration and in Conference resolution 91 (IV), will not be fulfilled, so far as maintenance of the levels of preferential tariff margins prevailing before the Tokyo Round are concerned. It is therefore important that the other elements of the GSP, such as product coverage, depth of tariff cut and rules of origin, should be substantially improved and should include relaxation and elimination of limitations on preferential imports, in order to offset the probable erosion of tariff margins.

CHAPTER V

Conclusions and recommendations

71. The generalized, non-reciprocal and non-discriminatory system of tariff preferences was established in order to help developing countries increase their export earnings, promote their industrialization and accelerate their economic growth. During the short time it has been in operation the GSP has asserted itself as a viable trade policy instrument for the establishment of more equitable trade and economic relations between developed and developing countries. The need to maintain and improve the system in order to achieve its declared objectives has been recognized in the Tokyo Declaration and reaffirmed by the Conference at its fourth session. At its fifth session the Conference may therefore wish to consider the adoption of the following measures for maintenance and improvement of the GSP.

Basic principles

72. Conference resolution 21 (II) called for the establishment of a generalized, non-discriminatory and non-reciprocal system of preferences. These principles have been reaffirmed in subsequent resolutions in UNCTAD, and in particular by the Conference in resolution 96 (IV), which states, *inter alia*: "Preference-giving countries should implement the provisions of Conference resolution 21 (II) regarding the generalized, non-reciprocal and non-discriminatory system of preferences". Moreover, the resolution emphasizes that the generalized system of preferences "has been instituted to help meet the development needs of the developing countries and should only be used as such and not as an instrument of political or economic coercion or of retaliation against developing countries, including those that have adopted or may adopt, singly or jointly, policies aimed at safeguarding their national resources".

73. For various reasons, some preference-giving countries have not recognized as beneficiaries all those developing countries which claim developing status. Furthermore, in the administration of their schemes certain preference-giving countries differentiate among beneficiaries with regard to the product coverage and/or the level of preferential imports admitted. Strictly speaking, such differentiation and selectivity contravenes the principle of non-discrimination. Also, certain preference-giving countries place conditions on eligibility for preferences which indirectly imply a certain degree of reciprocity of concessions or a certain pattern of behaviour. These conditions would therefore seem to be incompatible with the principle of non-reciprocity embodied in the GSP.

74. The principles of generalized, non-reciprocal and non-discriminatory preferences need to be reaffirmed and the preference-giving countries should agree to take appropriate measures for full observance of these principles. To this effect, they should extend generalized tariff preferences to all developing countries without discrimination, reciprocity or any other conditions.

Legal basis

75. In agreeing to the GSP, the preference-giving countries considered that the tariff preferences they each granted would be temporary in nature, that their grant did not constitute a binding commitment, and that it did not in any way prevent their subsequent withdrawal in whole or in part. This uncertainty as to preferential treatment inhibits investment in production for export under the GSP and thus prejudices the achievement of the long-term objectives of the system, i.e. to promote industrialization of developing countries and accelerate the rates of their economic growth.

76. In order to make the GSP more secure, the developing countries have from the outset insisted that the system should become a permanent feature of the trade policies of developed countries. In this connexion, Conference resolution 91 (IV) recommended, in paragraph 15, that the countries participating in the multilateral trade

[24] This analysis is based on 1976 trade flows, with the product coverage of the schemes adjusted to reflect the reduction of trade expansion effects of preferences due to *a priori* limitations under the schemes of EEC and Japan and the competitive need exclusions under the United States scheme.

negotiations give consideration to the views of developing countries with regard, *inter alia,* to the binding in GATT of the GSP preferential margins and to the effective compensation in the case of erosion of such margins resulting from MFN tariff cuts.

77. While recognizing the problem of uncertainty inherent in the GSP concessions, the preference-giving countries have not been prepared so far to improve the legal basis of the system. In view of the commitment by preference-giving countries to maintain and improve the GSP, the status of generalized preferences should be given special consideration at the fifth session of the Conference with a view to achieving the necessary stability of the system.

Duration

78. It was unanimously agreed at the fourth session of the Conference that the GSP should continue beyond the initial period of 10 years originally envisaged, bearing in mind, in particular, the need for long-term export planning in the developing countries.[25] In order to make this agreement more secure, it would be necessary formally to extend the duration of the GSP for at least another period of 10 years and to provide for a comprehensive review before the end of that period to determine, in the light of the objectives of the system, whether it should be continued beyond that second 10-year period. Thus, the GSP should constitute an important element in the international development strategy for the 1980s in the area of trade.

Product coverage

79. Product coverage varies as between individual schemes. While industrial products are generally covered, with the exception of a relatively small number of "sensitive" products, only selected agricultural products are included. On the whole, products currently covered by the GSP account for only one third of the OECD preference-giving countries' MFN dutiable imports from beneficiaries of their respective schemes. This proportion varies from one preference-giving country to another, ranging from 12 per cent to 93 per cent. Consequently, there is a large scope for the improvement of the GSP product and trade coverage. It would be desirable to include all dutiable products of export interest to developing countries in the GSP. To this end, agreement could be sought on a time-table whereby the product coverage would be extended so as progressively to increase the share of eligible products in total imports by preference-giving countries of dutiable imports from beneficiaries, aiming at full or substantial coverage of all dutiable imports from beneficiaries during the next five years.

Depth of tariff cut

80. Preferential duty-free entry is applicable to industrial products (CCCN chapters 25-99) under most of the schemes and varying degrees of tariff cut, including duty-free entry, are accorded to some agricultural products (CCCN chapters 1-24). Since, as a result of the multilateral trade negotiations, the MFN tariffs on industrial products will be further reduced, all preference-giving countries which have not yet done so should extend preferential duty-free entry to all industrial products covered by their schemes. Also, preferential duty-free entry, or substantially deeper tariff cuts, should be provided for agricultural products covered by the schemes. The extension of duty-free entry for GSP products by preference-giving countries which have not yet done so will also serve to offset the erosion of GSP margins resulting from the multilateral trade negotiations.

Safeguards

81. The GSP schemes generally contain an escape-clause type safeguard. While the escape action has been taken sparingly, and only by a few preference-giving countries, the decision to apply it has been made unilaterally each time by the preference-giving country concerned. In order to remove any uncertainty as to preferential treatment which might arise from discretionary and unilateral escape action, it would be necessary to base such action on objective economic criteria and multilateral procedures. Thus, preferential treatment on a product would be withdrawn or reduced only when, after prior consultations with preference-receiving countries, it has been established, on the basis of such criteria, that preferential imports have been the direct cause of serious injury to domestic producers of the importing preference-giving country. The safeguard action should be temporary in nature and subject to international surveillance and review.

82. In addition to the escape clause for safeguard action, a number of preference-giving countries rely on *a priori* limitations in the form of tariff quotas, ceilings and maximum country amounts or competitive need exclusions. These *a priori* limitations and exclusions not only substantially limit preferential imports but also create uncertainty about preferential treatment. As mentioned above, it is estimated that preferential imports in 1976 under the schemes of EEC, Japan and the United States would have been greater by about 50 per cent, or by some $4 billion to $5 billion, had there been no limitations and competitive need exclusions. The uncertainty surrounding the application of *a priori* limitations and exclusions discourages investments in beneficiary countries for expansion of production or establishment of new capacity in the production of goods affected by such constraints.

83. In the application of *a priori* limitations, in particular maximum country amounts, and of competitive need exclusions, the tendencies towards graduation and differentiation among developing countries are becoming more pronounced. The rationale for this differentiation is to reserve preferential access for products of less developed or non-competitive developing countries. In fact, these limitations and exclusions serve primarily as an additional protective device from preferential imports in general. They are contrary to the principal objective of the GSP, which is to increase the export earnings of developing countries.

84. It is evident, therefore, that a general liberalization of *a priori* limitations and competitive need exclusions is desirable, and serious consideration should be given by the preference-giving countries concerned to an early elimination of such constraints on all products covered by their schemes. If, in order to avoid the exclusion of highly sensitive products from the schemes, limitation of preferential imports of such products should prove indispensable, it

[25] See Conference resolution 96 (IV), sect. I, A, para. (*c*).

should be exercised through ceilings rather than the more rigid tariff quotas, maximum country amounts or competitive need exclusions. The method of calculating these ceilings should be such that they cover imports from beneficiaries up to the level attained in the previous year as well as provide for a reasonable rate of growth. If ceilings were calculated in this way, the maximum amount limitations would become practically superfluous, and by the same token, discrimination among beneficiaries which arises from the application of this constraint would also be eliminated. The ceiling approach would also allow those preference-giving countries whose only protection in their schemes against injurious imports is recourse to escape-clause safeguard action to extend their product coverage to those sensitive industrial products which they currently exclude from their schemes.

Rules of origin

85. Rules of origin serve to ensure that only those goods covered by the GSP that have been wholly obtained or substantially transformed in preference-receiving countries are entitled to preferential treatment. Western European preference-giving countries and Japan base their definition of substantial transformation on the process criterion, and other preference-giving countries on the value-added criterion. While the former countries have to a large extent harmonized their substantial transformation rules, i.e. their lists of processes A and B, no harmonization has so far been attempted by the latter countries although substantial differences exist among their percentage "value added" rules. As a result of diffences in definition of substantial transformation between various origin systems, a product may qualify for preferential treatment in one preference-giving country and not in another. Further harmonization of these rules is therefore essential in order to ensure equivalence of conditions of access to markets of preference-giving countries and to avoid distortion of trade. On the whole, the GSP rules of origin are very diverse and complex and certain requirements are unduly stringent. The need for further liberalization and simplification of the origin systems under the GSP has, therefore, been generally recognized.

86. Full and global cumulative origin is accorded under the schemes of Australia and New Zealand, which allows an exporting beneficiary country to count as originating any materials, parts, components or processes of any other beneficiary country. The United States scheme also provides for full cumulation, but to regional groupings only, and the schemes of EEC and the EFTA preference-giving countries, as well as of Japan, accord varying degrees of partial cumulation, but to regional groupings only. Adoption of full and global cumulation by all preference-giving countries would substantially liberalize the existing requirements and facilitate their further harmonization and simplification.

87. The task of harmonization and improvement has been entrusted from the outset to the Working Group on Rules of Origin, which agreed at its seventh session, in October 1978, that every effort should be undertaken in order to complete the harmonization and simplification of the rules of origin by the end of the present decade.[26] The Conference may wish to reaffirm and strengthen this undertaking. It should be borne in mind, in this connexion, that the tariff reductions resulting from the multilateral trade negotiations, when fully implemented, will significantly reduce the GSP margins. By the same token preference-giving countries would not then feel the same need to apply stringent rules of origin in order to prevent possible abuse of preferential treatment, since the incentive to traders to circumvent the rules will also be weaker, on account of the reduced preferential margins. In consequence, the preference-giving countries can without much real cost substantially liberalize and simplify their GSP rules of origin, including the adoption of full and global cumulative treatment.

Special measures in favour of the least developed countries

88. Section V of the agreed conclusions of the Special Committee on Preferences spells out the special measures in favour of the least developed countries which should enable them to benefit to the fullest extent possible from the GSP.[27] The need for such special measures has been subsequently reaffirmed in various UNCTAD resolutions. Experience so far has shown that GSP benefits to the least developed countries are limited for a number of reasons. Their exports are relatively small and confined largely to agricultural products and industrial raw materials. While the latter products are by and large MFN duty-free, and therefore fall outside the scope of the GSP, agricultural products are only partially covered by the system. Even when the least developed countries export products covered by the GSP they often fail to ask for, or else are denied, preferential treatment because, on account of their limited commercial expertise and administrative structure, they are unable to cope with the complexities of the various schemes and their origin requirements.

89. Various measures need to be taken in favour of the least developed countries in order to enable them to take maximum advantage of the GSP. First, the various schemes should be improved so as to provide preferential and unlimited duty-free entry for all MFN dutiable products exported by those countries. Origin requirements with regard to such products should be liberalized and harmonized, and the administrative procedures should be simplified. Secondly, continued technical assistance and advice should be extended to them in order to enable them to better understand and utilize the trade advantages available under the various schemes, including assistance in connexion with the rules of origin and their application. However, the improvements in the GSP in favour of the least developed countries, and technical assistance to these countries to better understand and utilize the GSP, will have only a limited impact on their export trade unless they are given substantial financial and technical assistance for the establishment and development of industries relevant to the GSP.

Utilization of the GSP

90. Only about 40 per cent of the preference-giving countries' imports of products covered by the GSP from

[26] See the report of the Working Group on Rules of Origin on its seventh session (TD/B/C.5/62), para. 43 (6).

[27] See the report of the Special Committee on Preferences on the second part of its fourth session (*Official Records of the Trade and Development Board, Tenth Session, Supplement No. 6A* (TD/B/329/Rev.1)), part one.

beneficiaries of their respectives schemes received preferential treatment in 1976. Limitations on preferential imports applied under some major schemes, and the stringency and diversity of the rules of origin, are mainly responsible for this rather low rate of utilization. It should be noted, however, that as a result of technical assistance extended by the UNCTAD/UNDP project on training and advisory services on the generalized system of preferences and by individual preference-giving countries, and also of the efforts of the preference-receiving countries themselves, the rate of utilization of the GSP has been continuously increasing. However, a number of developing countries, owing to their inadequate commercial and administrative structures, have so far benefited only to a small extent from the GSP.

91. There is much scope for increased utilization of the GSP. In addition to improvements in various schemes described above, it is vital that preference-receiving countries take appropriate measures in their production and trade, including trade promotion measures, in order to improve their performance under the GSP. For that purpose there is also a clear need to maintain and intensify technical assistance to developing countries, in particular to the less advanced ones. In this connexion it should be noted that the UNCTAD/UNDP project on technical assistance on the GSP has been extended until the end of 1980. Likewise the technical assistance provided by preference-giving countries to preference-receiving countries—through financial support to the project or direct participation in the project activities in the field, or on a bilateral basis—would need to be continued and intensified. An important ingredient of technical assistance in connexion with the GSP would be the prompt dissemination of detailed information on individual schemes to both exporters in preference-receiving and importers in preference-giving countries and their education, especially with regard to the application of rules of origin.

Maintenance of the GSP

92. In the Tokyo Declaration the Ministers recognized the importance of maintaining and improving the GSP in the multilateral trade negotiations. Despite this commitment, the GSP margins are likely to be eroded across the board as a result of agreed MFN tariff cuts. A preliminary analysis shows that the application of the agreed tariff-cutting formula on industrial products covered by the GSP would result in a reduction of the average preferential margin for the combined schemes of EEC, Japan and the United States by 40 per cent, i.e. from 8 percentage points to 4.7 percentage points. This erosion of GSP margins would be from 8 to 5.5 percentage points, or 30 per cent, if the United States eliminated MFN rates of 5 per cent or below on GSP covered products, as authorized by legislation. This erosion of GSP margins would result in a loss of advantage to traders and/or consumers in proportion to the substantial reduction in tariff revenue forgone, but more importantly, it would result in a significant reduction in the trade expansion effects of the GSP. This loss of GSP trade advantages would be offset only to a small extent by trade advantages resulting from MFN tariff reductions on products not covered by the GSP. In this situation it seems fitting for the preference-giving countries to improve the GSP significantly in order to honour the commitments they assumed in the Tokyo Declaration.

ANNEX

Imports of preference-giving countries in 1976 from beneficiaries of their schemes

(Millions of dollars)

Preference-giving country and CCCN chapters	Total imports	MFN dutiable imports	GSP imports		Shares (percentage)	
			Covered	Preferential	(4)/(3)	(5)/(4)
(1)	(2)	(3)	(4)	(5)	(6)	(7)
1. Australia[a]						
1-24	192.4	102.3	43.0	28.6[b]	42.0	66.5[b]
25-99	1 879.4	665.6	366.4	150.2[b]	55.1	41.0[b]
1-99	2 071.8	767.9	409.4	178.8[b]	53.3	43.6[b]
2. Austria						
1-24	311.6	256.7	179.6[c]	7.5	70.1	4.2
25-99	1 015.9	866.4	818.5[c]	118.6	94.5	14.5
1-99	1 327.5	1 123.1	998.3[c]	126.1	88.9	12.6
3. Canada[d]						
1-24	561.2	278.4	84.4	56.1[b]	30.3	66.5[b]
25-99	4 027.3	925.8	602.2	246.9[b]	65.0	41.0[b]
1-99	4 588.5	1 204.2	686.6	303.0[b]	57.0	44.1[b]
4. EEC[d]						
1-24	12 749.3	10 326.4	3 043.2	962.6[e]	29.5	31.6
25-99	65 263.1	11 415.3	10 124.8	3 483.5[e]	88.7	34.4
1-99	78 012.4	21 741.7	13 168.0	4 446.1[e]	60.6	33.8
5. Finland						
1-24	274.9	89.3	7.4	4.9	8.2	67.2
25-99	447.3	38.5	21.7	15.9	56.4	73.1
1-99	722.2	127.8	29.1	20.8	22.7	71.6
6. Japan[f]						
1-24	4 031.1	3 051.6	391.5	366.2	12.8	93.5
25-99	9 426.8	3 317.7			92.2	
	(32 939.8)	(26 276.1)	3 059.3	1 423.3	(11.6)	46.5
1-99	13 457.9	6 379.3			54.1	
	(36 970.9)	(29 927.7)	3 450.8	1 789.5	(11.8)	51.9

ANNEX (*continued*)

Imports of preference-giving countries in 1976 from beneficiaries of their schemes

(*Millions of dollars*)

Preference-giving country and CCCN chapters	*Total imports*	*MFN dutiable imports*	*GSP imports*		*Shares (percentage)*	
			Covered	*Preferential*	(4)/(3)	(5)/(4)
(1)	(2)	(3)	(4)	(5)	(6)	(7)
7. New Zealand[g]						
1-24	88.2[h]	44.7[h]	36.0[h]	23.9[b]	80.5	66.5[b]
25-99	529.5[h]	117.3[h]	115.2[h]	47.2[b]	98.2	41.0[b]
1-99	617.7[h]	162.0[h]	151.2[h]	71.1[b]	93.3	47.1[b]
8. Norway						
1-24	195.4	(15.9)[i] 23.7	7.6	2.1	31.9	28.3
25-99	976.4	71.3	36.7	20.3	51.5	55.1
1-99	1 171.8	95.0	44.3	22.4	46.6	50.5
9. Sweden						
1-24	569.4	462.6	32.9	28.8	7.1	87.6
25-99	2 163.4	478.9	156.2	116.0	32.6	74.3
1-99	2 732.8	941.5	189.1	144.8	20.1	76.3
10. Switzerland						
1-24	499.8	410.1	36.3	26.2	8.9	72.1
25-99	1 041.3	1 008.5	598.9	230.9	59.4	38.6
1-99	1 541.1	1 418.6	635.2	257.1	44.8	40.5
11. United States of America						
1-99	27 600.8[h]	21 076.8[h]	6 519.6	3 153.7	30.9	48.4
12. Hungary (1975)						
1-24	220.7	164.6	158.6	158.6	96.4	100.0
25-99	306.0	101.3	94.1	94.1	92.9	100.0
1-99	526.7	265.9	252.7	252.7	95.0	100.0
13. USSR						
1-99	6 215.9[h]	–	–	1 405.9[h]	–	–
I. *DMEC total* (minus Australia (1), Canada (3), EEC (4), New Zealand (7) and USA (11))						
1-24	5 963.3	4 335.2	655.5	435.8	15.1	66.5
25-99	39 072.0	28 847.7	4 691.3	1 924.9	16.3	41.0
1-99	45 035.3	33 182.9	5 346.8	2 360.7	16.1	44.2
II. *DMEC total* (1 to 10)						
1-24	19 554.5	15 087.1	3 862.1	1 504.0	25.6	38.9
25-99	110 771.3	41 971.7	15 899.9	5 852.8	37.9	36.8
1-99	130 325.8	57 058.8	19 762.0	7 356.9	34.6	37.2
III. *DMEC total* (1 to 11)						
1-99	157 927.0	78 135.7	26 281.5	10 510.6	33.6	40.0
IV. *Hungary and USSR total* (12 and 13)						
1-99	6 742.6	–	–	1 658.6	–	–
V. *GRAND TOTAL* (1-13)						
1-99	164 669.2	–	–	12 169.2	–	–

Sources: Data supplied by preference-giving countries and UNCTAD secretariat estimates.

DMEC = developed market-economy countries.

[a] Fiscal year 1975/76 (ending 30 June).

[b] Estimated preferential imports for Australia, Canada and New Zealand are based on the average 1976 utilization rates (66.5 per cent. for CCCN 1-24, and 41.0 per cent for CCCN 25-99—see total I, column 7) for OECD preference-giving countries which supplied complete information (Austria, Finland, Japan, Norway, Sweden and Switzerland).

[c] Includes the imports of a number of important products, such as bananas, raw coffee, cocoa beans, and petroleum and petroleum products, on which MFN duties have been temporarily suspended. Since these products, although formally covered by the Austrian scheme, could not benefit from GSP treatment, the utilization rates for Austria in column (7) are substantially understated.

[d] UNCTAD secretariat calculations.

[e] *Source:* TD/B/C.5/30/Add.12. The value of preferential imports reported by EEC has been converted from EUR to US dollars at 1 EUR = $1.27. (EUR is the statistical unit used by EEC for expressing the value of its external trade.)

[f] Fiscal year 1976 (ending 31 March 1977); data supplied by Japan for total and dutiable imports do not include petroleum products falling within two tariff headings and one subheading—27.09, 27.10-1 and 27.11—of the Japanese customs tariff; secretariat estimates of these imports for the calendar year 1976 have been added and are shown in brackets. Totals have been adjusted to reflect these changes.

[g] Fiscal year 1976 (ending 30 June).

[h] The values of imports were reported in national currency.

[i] The value of citrus fruits which received temporary duty-free treatment is shown in parentheses. Import figures for CCCN chapters 1-24, in both column (3) and column (4), have been reduced by this amount for the beneficiaries affected.

AGENDA ITEM 12*

DOCUMENT TD/233

International monetary issues

Report by the UNCTAD secretariat

[*Original: English*]
[*8 March 1979*]

CONTENTS

Introduction

1. The regulation of the international monetary system is centred around two separate and largely independent institutions; the International Monetary Fund (IMF) and the Council for Mutual Economic Assistance (CMEA). At previous sessions of the United Nations Conference on Trade and Development attention was focused on the monetary reform of the IMF-based system partly because of the crisis which is was undergoing and partly because most developing countries are members of that institution. The present report examines policy issues relating to the working of the IMF-centred system.

2. The Conference at its fourth session, held only five months after the agreements reached at Kingston, Jamaica, by the IMF Interim Committee of the Board of Governors on the International Monetary System, addressed itself to the question of monetary reform and in particular to the requirements for evolving an international monetary system that would foster development and world trade, having particular regard to the interests of the developing countries.

3. Concern was then expressed that the reforms and related measures envisaged in the Kingston agreements might not prove adequate in enhancing world trade and development. In particular, attention was drawn to the danger of the deflationary bias of the proposed system resulting from the lack of multilateral financing to cover the externally induced and structural deficits of many countries, in particular the developing ones.

4. The system which was proposed at Kingston and entered formally into force on 1 April 1978 under the Second Amendment of the Articles of Agreement of IMF was put under severe stress as a result of the conditions of world-wide disequilibrium and high unemployment and inflation in the developed market-economy countries.

5. In the event, the system performed less satisfactorily than was anticipated at Kingston. The problems are eloquently summed up by the Interim Committee of IMF in its communiqué of 25 September 1978, which noted that "the current situation remained still unsatisfactory in several important respects". The Committee expressed concern that "in most member countries rates of price increase continued to be much too high and substantial under-utilization of economic resources, including high levels of unemployment, continued to prevail". The Committee also noted that "wide differences in rates of

* For the agenda, see vol. I, part three, para. 6.

inflation and growth in domestic demand had contributed to the continuation of large deficits and surpluses on current account among the industrial countries. These imbalances had resulted in unstable foreign exchange markets . . . and this instability, in turn . . . had made the formulation and implementation of policies more difficult".[1]

6. There is growing awareness that, until the structural imbalances that characterize the economies of major member States are resolved, it is unlikely that the rules of the international monetary system will be viable in the long term. Nevertheless, it is recognized that the prevailing system should itself facilitate these structural changes by providing an appropriate monetary framework. This framework should be conducive to high levels of economic activity, whilst mitigating the international transmission of inflation.

7. Chapter I examines some of the aspects of the international monetary system that give rise to problems in the areas of trade and development, namely, exchange-rate policies, international liquidity and asymmetries in the adjustment process. Chapter II examines the existing facilities for balance-of-payments financing and focuses on the need to relax conditions for access to official balance-of-payments finance, so as to enable developing countries to effect structural adjustments that are required as a result of externally induced deficits. Chapter III contains a brief outline of a multilateral facility designed to contribute to international adjustment.

CHAPTER I

Selected policy issues

8. In the view of the *Ad Hoc* Committee of the IMF Board of Governors on Reform of the International Monetary System and Related Issues (Committee of Twenty), a reformed world monetary order "that will encourage the growth of world trade and employment, promote economic development, and help to avoid both inflation and deflation" should include as main features:

(*a*) An effective and symmetrical adjustment process, including better functioning of the exchange rate mechanism, with the exchange rate regime based on stable but adjustable par values and with floating rates recognized as providing a useful technique in particular situations;

(*b*) Co-operation in dealing with disequilibrating capital flows;

(*c*) The introduction of an appropriate form of convertibility for the settlement of imbalances, with symmetrical obligations on all countries;

(*d*) Better international management of global liquidity, with the SDR becoming the principal reserve asset and the role of gold and of reserve currencies being reduced;

(*e*) Consistency between arrangements for adjustment, convertibility, and global liquidity;

(*f*) The promotion of the net flow of real resources to developing countries.[2]

9. The Committee of Twenty did not succeed in reaching full agreement on all aspects of a reformed system and, in view of the uncertainties surrounding the world economy at the time, took the view that a comprehensive reform of the system could better be decided in the light of future developments. The Committee of Twenty did agree, however, that in the meantime a number of steps should be taken immediately to begin an evolutionary process of reform.

10. The immediate steps recommended by the Committee of Twenty formed the basis of the Kingston agreements and the Second Amendment of the Articles of Agreement of IMF.[3] Seen in this light, the Second Amendment cannot be considered as constituting a fully fledged reform; it is rather an interim arrangement in an evolutionary process of reform, which requires both a continuing review of the arrangements involved and appropriate changes in them so as to bring them closer to the agreed objectives of promoting development and world trade.

11. This chapter reviews recent developments in the exchange-rate regime, international liquidity, and the adjustment process, as well as their relationship to development and world trade.

A. The exchange-rate regime

12. Under the Second Amendment, a variety of exchange-rate practices, including floating, are allowed. In practice, the present system is characterized by the co-existence of a variety of exchange-rate arrangements, with developed market-economy countries generally operating under regimes of managed floating.[4] Member countries are at all times subject to general obligations to consult and collaborate with the Fund and with other members in order to assure orderly exchange arrangements and to promote a stable systems of exchange rates. According to the Second Amendment, each member is required to follow exchange policies compatible with its commitment to endeavour to direct its economic and financial policies towards the objective of "fostering orderly economic growth with reasonable price stability", and to "seek to promote stability by fostering orderly underlying economic and financial conditions and a monetary system that does not tend to produce erratic disruptions."[5]

13. To oversee the compliance of each member with these obligations, the Fund is required to exercise "firm surveillance" over the exchange-rate policies of its members. In exercising such surveillance, the Fund is guided by the principles set forth in a decision adopted by

[1] *IMF Survey* (Washington, D.C.), vol. 7, No. 19 (2 October 1978), p. 306.

[2] IMF, *International monetary reform. Documents of the Committee of Twenty* (Washington D.C., 1974), pp. 7 and 8.

[3] For a review of these measures see "International monetary issues. Problems of reform: report by the UNCTAD secretariat" (*Proceedings* ..., vol. III, *Basic documentation* (United Nations publication, Sales No. E.76.II.D.12), document TD/189).

[4] As of September 1978, 57 developing countries had pegged their currencies to major currencies. Of these countries, 39 pegged to the United States dollar, 14 to the French franc and 4 to the pound sterling. Some 29 developing countries pegged to either special drawing rights or a basket of currencies of their choice. In addition, 19 other developing countries determined the market rate of exchange of their currencies by means of a set of indicators or by floating vis-à-vis the United States dollar.

[5] *IMF Survey* (Washington, D.C.), vol. 7, No. 18 (8 September 1978), supplement, p. 300.

its Executive Board in 1977. In effect, these principles allow intervention to smooth out erratic exchange-rate movements but not to secure competitive advantages or to prevent effective balance-of-payments adjustment. The Executive Board's decision also enumerated certain developments which would indicate the need for discussions with a member on its exchange-rate policies.

14. While not enough experience has yet been obtained with regard to the IMF surveillance for valid generalizations to be possible, recent developments indicate that there exist strong underlying forces that tend to render the exchange-rate regime unstable. Indeed, the experience since 1973 is one of record instability in exchange rates. Day-to-day fluctuations have been extremely large in spite of very substantial interventions by central banks.[6] These fluctuations have been associated with massive short-term capital movements induced by arbitrage or speculative factors.

15. Such behaviour on the part of exchange markets should be no surprise. Fluctuating rates transform currencies themselves into portfolio assets.[7] With the dramatic growth in the size of such portfolios over the past decade and the increased integration of financial markets, portfolio shifts can now engender enormous capital movements across currencies. This has resulted in very active foreign-exchange markets and the determination of short-run exchange rates in almost total independence from long-run factors.

16. These developments give rise to several problems. The dominant role in the markets for foreign exchange played by short-run capital movements has undermined the usefulness of changes in exchange rates as meaningful economic signals so far as the adjustment process is concerned. It has been a common experience in the recent past to observe a situation in which a currency is tending to depreciate in the foreign-exchange market at a time when it is already undervalued in the market for goods and services.

17. Another problem arises in connexion with the economic cost of deviations of short-run exchange-rate movements from the path dictated by long-run factors. Such deviations tend to reduce effective investment planning and may divert financing into activities of low social and economic priority.

18. Currency instability has also adversely affected international trade. The general climate of uncertainty that such instability introduces into international economic relations may well have become one of the most significant trade barriers in practice, tending as it does to induce protectionist responses, including a gamut of quantitative restrictions. The problems associated with currency instability are particularly serious for the developing countries, which, on the whole, do not possess forward exchange facilities.

19. As a result of the continuing turbulence in foreign-exchange markets, there have been efforts recently to evolve regional arrangements for currency stability. For example, the envisaged European monetary system intends, *inter alia*, to stabilize exchange rates among its member countries. Whilst attempts to establish a regime of this kind are understandable, the question arises whether the very same factors that make it difficult to introduce, at the world level, a regime of stable but adjustable exchange rates may not also prevail at the regional level. It is an open question, for example, whether, in the absence of provisions for balance-of-payments finance, enforcement of such an exchange-rate regime among countries with sharply different payments positions may not bring forth pressure upon the deficit countries to adjust through unduly deflationary measures. Such an outcome would not only result in further deterioration of the employment situation in the region, but would also unleash additional deflationary forces at a global level.

20. At the international level, effective surveillance by IMF may contribute to a reduction of currency instability. In this connexion, the establishment of a set of reference rates to anchor exchange rates may prove necessary. At a more fundamental level, however, exchange-rate stability will require a better harnessing of the operations of capital markets in the interests of global stability and effective control of the creation and distribution of international liquidity. It will also require the pursuit of an adjustment process that contributes to world trade and development. These issues are discussed below.

B. International liquidity

21. At present, the stock of international liquidity consists of holdings of gold, dollars, and a few other major currencies as well as of Fund reserve tranches and special drawing rights (SDRs). Official holdings of foreign exchange (with the United States dollar as their largest component) account for the most important part of international liquidity. The future role of gold in the post-Kingston era is not yet clear, although it remains an important international asset.[8] At present SDRs constitute less than 3 per cent of the total stock of international liquidity (with gold valued at market prices). The IMF Interim Committee, at its September 1978 meeting, recommended an increase in SDR allocations for each of the years 1979, 1980 and 1981 by an amount of SDR 4 billion. Even when this increase is taken into account, the SDR will continue to be of limited significance.

22. Rises in international liquidity stem mainly from increases in the payments deficits of the United States of America and expansion in the size of the Eurodollar market. The role of the dollar as the world's main reserve asset requires that it maintain a good record of stability. In recent years, however, the performance of the dollar has fallen short in this respect, and the major reserve centre has faced the dilemma of either pursuing independent domestic policies at the risk of endangering the external value of the dollar or subjecting domestic priorities to a restrictive programme designed to restore stability in the exchange markets.

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[6] For example, intervention by major central banks participating in the swap arrangements amounted to $100 billion during the period July 1973 to February 1975.

[7] Under managed floating, foreign asset holders adjust their portfolios in the light of daily market developments and monetary policy actions.

[8] The official price of gold was abolished as part of the agreements reached at Kingston. At market prices in May 1978 the value of official holdings of gold amounted to almost 45 per cent of total official holdings of reserve assets. However, the Kingston agreements were ambiguous about the future role of official gold stocks in international financing.

23. The international supply of dollars has been growing rapidly since 1969. Dollar claims by non-residents rose from $78 billion in 1969 to $146 billion in 1972 and again to $373 billion by the middle of 1978. While it is difficult to determine whether this mass of dollars has been in excess supply, i.e., over and above desired stocks, it is noteworthy that increases in the supply of dollars have certainly outstripped the growth of world trade and perhaps also the transactions demand for them. What, perhaps, is more important than the question of whether there is now a dollar "overhang" is the fact that the mechanisms for generating international liquidity will match the demand for it, at full employment levels, only by sheer accident.

24. In the first instance, it has proved difficult to harmonize the desire of the United States to bring its external position under its own control, on the one hand, and liquidity requirements at the global level, on the other.[9] Moreover, the increasing capacity of the international banking network to generate Eurodollar credits has meant, in effect, that control over the creation of liquidity has been placed, to a large extent, outside the reach of official circles. There are no *a priori* reasons to expect that the rate of expansion of Eurodollar credit will always be consistent with the dictates of efficient and development-oriented management at the global level. Nor is it likely that the distribution of credits among member States will either be equitable or contribute to a desirable adjustment process.

25. To be sure, these problems are not unique to the present dollar standard. Any system whose primary reserve asset is a national currency is bound to be asymmetrical[10] and consequently will tend to give rise to such problems.

26. It was the desirability of obtaining such a symmetry that led to the creation of the SDR in 1968. Unfortunately, SDRs have not as yet fulfilled this objective. Whilst there has been broad agreement at an international level that they should become the principal reserve asset of the system, with the role of gold and reserve currencies being reduced, specific measures have yet to be put into force to achieve this objective in the near future. The role of reserve currencies was to be reduced by appropriate provisions on adjustment and settlements, but such provisions are not included in the Second Amendment as a result of differences of views among member States. Recently the Interim Committee recommended a number of changes that will enhance the attributes of the SDR.[11] These involve use, reconstitution and interest rates.

27. While the recommended changes in the characteristics of the SDR as well as the new allocations envisaged over the period 1979-1981 are steps in the right direction, it is clear that these measures alone will not suffice substantially to enhance its role. A measure which might contribute towards this objective would be the establishment of a substitution account that would permit replacement of dollar assets by SDRs. This proposal was examined by the Committee of Twenty, but there was no consensus for it. Recently the proposal has again attracted attention and it appears that the time may be opportune for its reassessment.

28. An internationally managed reserve asset such as the SDR should be distributed according to internationally agreed criteria. One proposal that has been considered in this context is that the creation of SDRs be linked to the provision of additional development finance.[12] The Second Amendment is notable for the absence of even an enabling clause to establish a link between SDR allocations and development finance, in spite of protracted discussions, exhaustive technical studies and the support which it received from most member States. Renewed efforts to enhance the role of the SDR should go hand in hand with new attempts at reaching an agreement on the establishment of a link between SDR allocations and development finance.

C. The adjustment process

29. The world economy since 1971 has been characterized by a succession of crises involving the emergence of large and persistent payments imbalances. In the first instance, world needs for energy required that oil-exporting developing countries as a group had to produce and export oil at rates well above their short-term absorptive capacity. As a result, these countries exhibited a cumulative current-account surplus of $198 billion during the years 1974-1978.[13] Moreover, several developed market-economy countries have had a solid record of payments surpluses. For example, three countries—Japan, the Federal Republic of Germany and Switzerland—ran a cumulative current account surplus of $86 billion between 1974 and 1978.

30. The counterpart of these surpluses was reflected in the current-account deficits of other countries. Thus, non-oil-exporting developing countries ran a combined cumulative current-account deficit of $153 billion during 1974-1978. Other developed market-economy countries registered a deficit, on the same basis, of $133 billion during that period. The deficits of the socialist countries of Eastern Europe vis-à-vis non-CMEA countries have also been substantial. Since 1977, the United States current

[9] The problem is further complicated by the important weight in the world economy of the United States. For example, world economic conditions may point to the need for reflation in the United States economy, whilst at the same time the stock of dollar assets held by non-residents may be such as to require reduction in the outflow of dollars and consequently deflationary policies, if the stability of the currency is to be maintained.

[10] The asymmetry between a reserve currency and other currencies relates to the ability of the reserve currency country to settle its obligations by issuing liabilities against itself rather than surrendering international foreign assets. By contrast, other countries can only effect asset settlements.

[11] See press release issued by the IMF Interim Committee at its tenth meeting, held in Mexico City on 29-30 April 1978 (*IMF Survey* (Washington, D.C.), vol. 7, No. 9 (8 May 1978), pp. 134-136).

[12] For a discussion of this issue see "SDR creation and development assistance", in *Money, finance and development: papers on international monetary reform* (United Nations publication, Sales No. E.74.II.D.15).

[13] Recently the absorptive capacity of this group of countries has shown a dramatic increase, outstripping, in many cases, export revenues. Partly because of this and partly as a result of the sharp deterioration in their terms of trade, the current-account surplus of oil-exporting developing countries, as a group, is expected to be only $12 billion in 1979.

account has deteriorated and showed deficits of $11 billion and $14 billion in 1977 and 1978 respectively.[14]

31. With regard to the structural surpluses generated by the relatively low absorptive capacity of oil-exporting developing countries, it was recognized that "attempts to eliminate [the counterpart deficits] through deflationary demand policies, import restrictions, and general resort to exchange rate depreciation would serve only to shift the payments problem from one oil importing country to another and to damage world trade and economic activity".[15] The alternative to these measures, namely the financing of the deficits, was, in principle, feasible because their financial counterpart was available to be "recycled" through international capital markets. In order to ensure that the recycling process allocated funds in an equitable manner, the private market mechanism was supplemented by the IMF "oil facility".

32. Paradoxically these ideas was not heeded in the treatment of the surpluses of some developed market-economy countries which, with the dwindling of the oil surplus, now constitute the major source of payments imbalances. Official circles have tended to regard these imbalances as temporary and subject to self-correction through the expected upswing in the world economy and appropriate use of exchange-rate policies. In the event, the upswing has failed to materialize and there is now a general agreement that a period of "depressed growth" may lie ahead. Moreover exchange-rate movements have in most cases been offset by price changes.

33. It is now becoming clear that the rate at which these surpluses will be reduced may be rather low. The case was eloquently made by the Governor of the World Bank for the Federal Republic of Germany in an address to the Boards of Governors of IMF and the World Bank: "An economy which for more than two decades became accustomed to produce external surpluses cannot easily adjust to current account equilibrium. As everywhere, structural changes take time and organizational imagination. Excessive and rapid exchange rate changes would undermine confidence, which still is the main basis for investment and growth."[16]

34. In so far as the surplus developed market-economy countries consider it necessary to stretch out the structural adjustments required over an adequate period of time, it follows that the adjustment process in the countries incurring the counterpart deficits should move along a similar time path. But if the deficit countries are to do this in practice, the requisite financial means must be available. Unlike the case of the oil surplus, the "recycling" has to be a deliberate act of international co-operation, with the surplus developed market-economy countries being prepared to provide finance on a longer-term basis. Unfortunately this does not yet seem to be fully understood. By and large the whole burden falls on deficit countries, which find themselves under pressure to adjust quickly with as little recourse to official financing as possible. The asymmetry involved in this distribution of the burden of adjustment between surplus and deficit countries is further accentuated by the fact that IMF, which has no effective influence over the economic policies of surplus countries, has concentrated upon deficit ones. Partly because of the limited resources at the disposal of IMF, and partly because concentration on the policies of individual countries implies that the global dimensions of the problem are often ignored, there has been a tendency to prescribe adjustment through restrictive programmes rather than financing, even when the deficits are the counterpart of structural surpluses elsewhere in the system.

35. This asymmetry in the international monetary system imparts a deflationary basis to the world economy. If the deficit countries eliminate their deficits in the short run through deflation, the surplus countries themselves will be forced into a speedy and disruptive adjustment of precisely the kind which they claim to wish to avoid. As a result the world economy may be faced with a deflationary spiral of unprecedented force with serious consequences for world trade and development.

36. Shifting an unduly heavy burden of adjustment to the weakest countries has serious consequences for the development of developing countries. The exceptionally large deficits that developing countries experienced in the period 1974-1978 were induced, on the whole, by external factors, namely changes in the prices of traded goods and recession in the developed market-economy countries.[17] Import volumes have increased at substantially lower rates than those observed in the earlier years, let alone those envisaged for the Second United Nations Development Decade. Consequently, it cannot be assumed that excessive demand pressures played a significant part in the process.[18]

37. Several developing countries which succeeded in gaining access to private capital markets were able to finance their deficits with relative ease. They did so, however, in the general expectation that the world economic climate would soon improve and thus enable them to service their debts out of an increased level of exports while continuing the structural transformation of their economies. In the absence of improvements in world economic conditions, these countries are now facing the problem of obtaining additional net financial resources on improved terms. It is doubtful whether additional resources on the scale required and at terms that would improve the debt structure can be obtained without a substantial increase in official financing.

38. The majority of the developing countries, including the most populous ones, have not had recourse to private markets and, owing to the inadequacy of official flows, have had to cut back on their development efforts. It is noteworthy that the most seriously affected countries, including the least developed countries, have at best experienced marginal increases in *per capita* incomes in the present decade.

39. A factor preventing a satisfactory adjustment process in developing countries, which is also a symptom of the failure of the adjustment process in developed market-

[14] The cumulative current-account surplus of the United States was $14 billion for the period 1974-1978.

[15] See IMF, *Annual Report, 1974*, p. 26.

[16] See IMF, *Summary Proceedings of the Thirty-third Annual Meetings of the Board of Governors, September 25-28, 1978* (Washington, D.C.), p. 32.

[17] See document TD/235, reproduced in the present volume.

[18] This, of course, may be true for individual cases.

economy countries, is the resurgence of protectionism. This has had an especially severe impact on certain low-wage developing countries which export manufactures. Here again there exists a basic asymmetry that shifts the burden on to the weaker partner. Developed market-economy countries which impose trade restrictions argue that there is a need for phasing imports of manufactures from developing countries over an adequate period of time, so as to allow for structural adjustments in their economies. Whilst this is understandable, in the same vein it can be pointed out that the adjustment process in developing countries is retarded or even obviated by trade restrictions, with the result that the problem of payments imbalances is accentuated. In this connexion, it should be stressed that problems in the trade field can be easily transmitted to the financial system. It should be recalled that developing countries have built their industrial bases through substantial external borrowing in the expectation that a large part of their manufactured output could be sold in foreign markets. The upshot of this is that a satisfactory adjustment process cannot be unidirectional. Mechanisms to ensure that financial flows are eventually reversed in the form of commodity exports needs to be preserved. In other words, a liberal financial system cannot coexist with a regime of trade restrictions.

CHAPTER II

Balance-of-payments financing

40. The preceding discussion stressed the need for restoring symmetry in the adjustment process. In the light of the nature of payments imbalances, symmetry requires that the deficits which are the counterpart of structural surpluses be financed at terms consistent with the rate at which structural changes can be achieved. Private capital markets play an important role in channelling financial resources from surplus to deficit areas and will, no doubt, continue to do so. Nevertheless the experience of the recent crises has clearly shown that there is a need for sizeable and effective official intermediation.

41. Multilateral intermediation should ensure that the financing of the adjustment process is carried out with full understanding of its global dimensions and in the light of internationally agreed norms regarding economic development, employment and trade. It should also provide financing for the weaker member States which may find it difficult to obtain financial resources on appropriate terms from private capital markets.

42. Under the Bretton Woods system, the role of financing reconstruction and development of the world economy was entrusted to the World Bank. Over the years, the World Bank, as well as the regional development banks which were established later on, evolved almost exclusively into project-financing institutions. Partly because of limitations enshrined in the charters of these institutions and partly because of a rather narrow interpretation of their own scope in the area of development these multilateral development institutions have tended to resist adjusting their lending policies and techniques in a rapidly changing world environment. Thus, when in recent years the needs for programme financing became most pressing, the programme component of World Bank lending failed to reach even the modest 10 per cent share that the Bank has set for itself.[19]

43. IMF, which is entrusted with the task of assisting member States with balance-of-payments problems, was less than adequately equipped to deal with the turbulence of the 1970s. For one thing, its resources were grossly inadequate to cope with the enormous payments imbalances that arose at that time.[20] For another, the Fund's operational guidelines, as they evolved over time, reflected a conceptual framework of payments disequilibria that could ill accommodate the new character of payments problems. As a result, IMF resources involving conditionality have been sparingly used by its members, especially developing countries, and this only when other alternatives have been exhausted. At a more fundamental level the Fund's institutional mandate is too restrictive to enable it to deal in a satisfactory manner with the multiple sources of payments problems. These problems can no longer be treated as largely monetary in character. They are inextricably linked with, and must be treated in conjunction with, the question of long-term capital flows, trade policies, development, and national objectives with regard to employment, which are often in conflict with one another. When the situation is seen in this light, it becomes clear that it is unreasonable to expect an institution that has no influence over decisions in these interrelated areas to realize in practice the objectives of collective management of the world economy. This tends to underline the critical vacuum that was left by the failure to establish an international trade organization which would deal with the question of world trade, investment, income and employment.[21]

44. What follows is an examination of the use of Fund resources and their conditionality from the viewpoint of the above considerations.

A. IMF resources and facilities

45. At present the Fund operates four regular types of "facility",[22] two specialized facilities and one supplemen-

[19] For a discussion of this issue, see document TD/234, reproduced in the present volume.

[20] It may be noted that even during the period before the 1970s the resources of IMF proved to be insufficient to deal with crisis situations. The financial support that was involved in efforts to maintain the stability of major currencies under stress in the 1960s was provided through *ad hoc* agreements such as the General Arrangements to Borrow and swap arrangements between central banks.

[21] At the Bretton Woods Conference, three major areas were identified as appropriate for multilateral action: balance-of-payments problems (which were to be covered by IMF); economic development (which was to be covered by the World Bank); and employment and economic growth. Amongst the proposals subsequently put forward in the third of these areas was one by the United States for international agreement for the "expansion of world trade and employment". However, the charter for an international trade organization which eventually emerged in 1948 from lengthy negotiations at Havana (see United Nations Conference on Trade and Employment, Havana, Cuba, 21 November 1947-24 March 1948, *Final Act and Related Documents* (E/CONF.2/78)) was not ratified by any of the major industrial countries.

[22] The term "facility" is used here in a general rather than a technical sense. The categories distinguished above are on the basis of the nature of the conditionality attached to the various tranches and facilities.

tary facility. The reserve tranche (formerly the gold tranche) and the first credit tranche constitute two regular types with a rather lenient conditionality. The upper credit tranches and the extended financing facility are the two other regular types but they carry rigorous conditionality. The two specialized facilities are the compensatory financing facility and the buffer stock financing facility. The supplementary financing facility is the newest source of financing from the Fund at present and is expected to enter into operation in the near future.[23]

46. The common feature of the three regular facilities spanning the reserve and credit tranches is their short-run character. The purchasing period is usually for one year and repurchases are to be made within three to five years. The extended financing facility allows financial support programmes up to three years and repurchases four to eight years after each purchase. It represents the only departure amongst the facilities from the short-run character of Fund resources. The compensatory financing facility and the buffer stock financing facility are special facilities and have been associated with commodity-export shortfalls and the financing of international commodity agreements respectively. The supplementary financing facility is a temporary facility which "supplements" regular credit tranches and carries rigorous conditionality.

47. A member State of IMF may face payments problems for a variety of reasons. Many of these are associated with the operation of forces that are of short duration and are expected to reverse themselves through an appropriate mix of domestic policies and external financing. Shortfalls in crop yields due to natural conditions or in export earnings due to commodity cycles as well as excess demand pressures are examples of forces giving rise to this kind of payments imbalance. In these cases the IMF credit tranches, perhaps supplemented by drawings from the supplementary financing facility, can in principle assist member States to restore payments balance without undue disruption of their levels of economic activity. Whenever payments imbalances are due to shortfalls in commodity earnings, the compensatory financing facility can play a particularly useful role.[24]

48. These are all examples of payments problems that are usually expected to reverse themselves within a relatively short period of time. But member States, especially developing countries, are also often faced with situations in which the net long-term capital inflow is insufficient to support even a modest rate of investment and development. When a payments imbalance is due to a shortfall in the net long-term capital inflow, the provision of short-term balance-of-payments financing and the application by the IMF of the conditionality usually associated with such financing is not appropriate. In such cases (which might be called "development-finance" deficits) it is necessary to secure for the country concerned at least the minimum required amount of development finance. In other words, IMF will need to examine the payments position of a member State in the light of the country's needs for such finance and quite possibly to seek the co-operation of multilateral development institutions in raising its net long-term capital inflow. In these circumstances, provision of short-term balance-of-payments financing and the strict application of conditionality associated with it will most probably turn a "development-finance deficit" into a domestic economic crisis.

49. A third kind of payments imbalance is structural in nature. This may be induced by factors internal or external to an economy. Externally induced deficits of this kind are the mirror image of surpluses elsewhere which, for a variety of reasons, require that the adjustment process be effected through structural changes in the economy in the medium term. World inflation affecting the relative prices of traded goods and, consequently, cost structures is a typical cause of an externally induced payments imbalance.

50. The Fund has accepted the existence of structural payments problems and as a result has established the extended financing facility. In principle this facility can deal with structural problems of internal origin, but it cannot deal adequately with externally induced deficits. A country-specific programme—as in the case of the extended financing facility—will have to establish a rate of adjustment in the light of the particular conditions prevailing in the country concerned. In the case of externally induced deficits, however, the rate of adjustment should take into account, in addition, global conditions and prospects, including the rate of adjustment in the surplus countries. In other words, what is required in these cases is a facility of global scope, with country programmes being the components of action on an international plane.

51. Most of the payments problems of developing countries are linked either to shortfalls in development finance or to external factors beyond their control. But these are precisely the cases which the existing facilities are least equipped to deal with. On the face of it, developing countries have shown an understandable reluctance to draw upon IMF facilities that are associated with conditions which are not relevant to the problems facing them.

B. Conditionality[25]

52. The term "conditionality" denotes conditions regarding (*a*) the circumstances of drawing, (*b*) the period for which a drawing may be outstanding, and (*c*) the policies a country may pursue.

53. The conditionality practices of the IMF have evolved over many years. Its present practices were established in 1968, when the Executive Directors undertook a broad review of conditionality. While stressing the need for flexibility, the Executive Directors reaffirmed the Fund's established practices on the use of its resources, including the use of consultation, performance clauses, and phasing for stand-by arrangements in the first and upper credit tranches.

54. In practice, the terms on which IMF has made its resources available have changed through time. During the early post-war years the Fund's principal concern was that

[23] For a schematic presentation of the characteristics of these facilities, see annex.

[24] For a discussion of the operations of the compensatory financing facility and possible expansion of its scope, see "Compensatory financing for export fluctuations: note by the UNCTAD secretariat" (TD/B/C.3/152/Rev.1 and Corr.1 and 2).

[25] This section draws upon a report prepared by the UNDP/UNCTAD project INT/75/015: *The Balance-of-payments Adjustment Process in Developing Countries: Report to the Group of 24* (New York, Pergamon Press, 1980).

its resources should not be used in violation of its Articles of Agreement. However, the subsequent evolution of its policy towards borrowers led to a change in the focus of conditionality, which increasingly stressed the link between the availability of the Fund's financing and the adoption by countries of viable programmes of balance-of-payments adjustment. The Fund's notion of viability is reflected in its conception of "proper adjustment policies".[26]

55. The main objective of an adjustment programme is to assist the member State in restoring equilibrium in its balance of payments. This, of course, can be achieved at different levels of economic activity and through a variety of policy measures. A successful adjustment programme is one that meets its primary objective with a minimum disruption of the long-run development process. In other words, the adjustment programme should be consistent with and contribute to long-term development goals. In the case of developing countries, particular attention needs to be paid to securing a reasonable rate of growth of investment and acceptable levels of consumption, especially for the poorer groups of the population.

56. The following paragraphs examine the policy instruments of IMF-sponsored programmes and the rate of adjustment from the point of view of their impact on the development strategies and needs of developing countries.

Policy instruments of adjustment programmes

57. The adjustment programme is elaborated in the context of the stand-by arrangements drawn up when a country borrows from its upper tranches and the other facilities of the Fund. All stand-by arrangements provide for a ceiling on the net domestic assets of the central bank or the banking system, and often for a subceiling on credit supplied to the Government for financing its deficit. Ceilings on new borrowings from abroad are usually set in cases where debt servicing, in the opinion of the Fund, may pose a problem. In many instances targets for interest rates are also set. Exchange-rate adjustments are usually effected both before considering the borrowing application and while the stand-by is in effect. In addition, target levels for reserves and inflation rates are often established. In the area of fiscal policy it is usually prescribed that the size of the budget and the tax revenues be brought in line with each other, and generally the Fund requires the elimination of government subsidies. In the area of trade the Fund usually insists on freezing trade restrictions and sometimes on the liberalization of commercial policies as well. In a number of cases, limits to increases in wages and domestic prices are agreed upon in the understandings reached with the borrowing country. These understandings also often include a requirement for a review of the pricing policies of government enterprises.

58. Concern has been expressed about the multiplicity of performance criteria set forth in the context of an adjustment programme. In this connexion, the Intergovernmental Group of 24 on International Monetary Affairs stated that "the guidelines [concerning the use of Fund resources] should be designed so as to limit the performance criteria only to relevant macro-economic variables, paying due regard to the growth considerations of member countries and their prevailing economic and social situations".[27]

59. Most of the policy instruments employed by the adjustment programmes relate to monetary variables. Broadly speaking, the Fund appears to share the view that restrictions on the net assets of the banking system, in effect the money supply, will improve the balance-of-payments situation within a fairly short period of time. The impact chain runs from the money supply to the flow of nominal spending. However, for changes in the money supply to be reflected in changes in the levels of nominal demand, the velocity of monetary circulation must be stable.[28] Naturally, if assets such as near-monies or instruments for hoarding can be substituted for money, desired money balances may be adjusted downward, thus offsetting the tightness of credit. There is evidence that the possibilities of such substitution are widespread in many developing countries. Moreover the impact of a decline in total spending on imports depends on such factors as the income and price elasticities of demand for imported goods. In cases where these contain a high proportion of essentials such as food and energy products, as is often true for developing countries, the elasticities are likely to be low, with the result that payments imbalances will tend to respond only to very large changes in total spending. Thus, whilst aggregate monetary tools may improve a country's payments situation, they often do so only at great cost to the economy and particularly to the level of employment and the pace of economic development. But, more importantly, these measures usually fail to tackle the underlying causes of a country's payments difficulties such as structural rigidities on the supply side.

60. In cases in which private borrowing abroad is possible and not subject to controls, deflation through tight-money policy may be self-defeating because the ensuing interest-rate rises induce capital inflows. In many developing countries sterilization measures cannot be effective in view of the low level of development of money markets and the tenuousness of monetary control over a mixed foreign and national banking structure. Hence capital inflows may inflate the monetary basis and thus offset the initial decline in the money supply.

61. Moreover the efficacy of measures affecting monetary macro-variables depends on the smooth functioning of the price system. However, it is generally agreed that market imperfections tend to be especially widespread in many developing countries with the result that policy packages with a heavy emphasis on monetary measures may not have the effects intended.

62. The principal conclusion to emerge from this discussion is that the Fund's tendency to associate payments imbalances with excess demand and the latter with

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[26] The "judgement" of the Fund with respect to the "appropriateness" of the pursued policies has, under present circumstances, significant externalities. Credit markets have come to regard the Fund as a certifier of a country's creditworthiness. In these circumstances, conditionality renders credibility to the Fund's market signal regarding the creditworthiness of the borrower with access to capital markets.

[27] Communiqué on the 17th meeting of the Group of 24 (Washington, D.C., 22 September 1978), para. 12. See *IMF Survey* (Washington, D.C.), vol. 7, No. 19 (2 October 1978).

[28] Velocity in this context is defined as the number of times a monetary unit enters into transactions per unit of time.

the degree of monetary ease is appropriate in only a limited number of cases. In circumstances where imbalances are the result of longer-term structural factors, Fund policy packages with their emphasis on the efficacy of monetary measures and their implicit assumption of the existence of an efficient market mechanism are not only inappropriate but may even aggravate the underlying causes of the crisis which they are designed to solve.

63. The usual practice of the Fund is to set quarterly target levels for the macro-variables against which it can check a country's compliance with conditionality. Failure to meet these targets has severe consequences in that it results in the interruption of a country's right to make purchases without the need for a decision by, or even notice to, the Executive Directors. The question thus arises whether a high degree of confidence can be placed in numerical targets. One may ask what difference there is between a figure for the money supply slightly below the ceiling and one slightly above it. In view of the incomplete understanding of the impact chain of macro-economic policies and the likelihood of inaccuracies in the data, it would seem that judgement should be an essential complement to quantitative targeting. Instead of setting fixed targets, there seem to be good arguments for evaluating broad economic trends and then establishing a range to be achieved for a particular variable.

64. Changes in the exchange rate are generally required by the Fund before a stand-by is agreed upon and while it is in effect. Although the exchange rate is an important instrument, such changes should not be applied indiscriminately. As a form of relative price adjustment, the efficacy of devaluation (or revaluation) of the exchange rate depends on the existence of high price elasticities of exports and imports. On the export side, developing countries typically supply primary commodities, whose supply elasticities are relatively low in the short run. On the other hand, as was noted above, a major part of the imports tends to consist of food, energy products, and other essentials, demand for which is relatively inelastic in the short run. Consequently, it is far from certain that altering the exchange rate will bring about an improvement in the trade balance. It is recalled that, if it is to be effective, any form of relative price adjustment must modify the structure of production or demand, or both.

65. There is another limitation on the successful use of devaluation in developing countries. Since most developing economies are characterized by a high degree of openness, i.e. a large ratio of imports to GNP, devaluation tends to result in inflation rather than a transformation of the structure of production and income. Price rises usually manifest themselves first in the import sector and then spread to other tradeable goods. These two sectors, which bulk large in the economy, pull up prices in the non-tradeable sector. Hence in open economies a generalized cost inflation usually follows devaluation. Even in cases where a change in relative prices and not a generalized price rise occurs, low sectoral mobility of resources tends to undermine the adjustment role of changes in the exchange rate.

66. In a world where exchange rates are continuously fluctuating in a non-systematic manner, a given currency cannot uniformly realign itself against all others. Thus, under generalized floating a country cannot devalue by a given percentage against the rest of the world and experience the same percentage increase in the domestic price of importables and exportables. This is because the domestic price changes of tradeables will all depend on the currency realignments of trading partners, which may well move positively or negatively against the domestic currency. Therefore exchange-rate movements will have a differential terms-of-trade impact amongst the different sectors of the economy. This suggests that, contrary to the stand adopted so far in stand-by arrangements, the case may be that, in order to be effective, changes in exchange rates in many developing economies may have to be accompanied by differential taxes and subsidies on exports and imports.

67. Finally, in the face of the divergences in the growth rates of income of various countries and the prevalence of unequal income elasticities of exports and imports, the adjustment role of exchange rates resulting from its effects on relative prices can easily be overwhelmed. All these arguments indicate that the potential role of devaluation in effecting balance-of-payments adjustment cannot be decided on *a priori* grounds but will depend on the circumstances of individual cases.

The rate of adjustment

68. The optimum rate of adjustment depends upon the causes of the imbalances and the degree to which resources can be redeployed. In cases where imbalances are structural, the redeployment of resources has to be stretched out over a relatively long period. The difficulty in determining the optimum rate of adjustment is compounded by the fact that, in addition to economic factors, social and political considerations have to be taken into account. Thus valid technical solutions to the problem must include the political judgement of the Governments of member States regarding the social and political constraints with which they are confronted.

69. This means that it is impossible to determine a general rule for the time frame within which the adjustment is to be effected. It will have to vary from case to case, depending upon the particular circumstances prevailing in the country concerned. While IMF has recognized this in principle and, in some instances, has adopted stand-by arrangements covering periods up to three years, it still considers the one-year stand-by arrangements to be normal procedure. This amounts to prejudging the character of the deficits and may lead to the adoption of a rate of adjustment that is counter-productive from the point of view of development and ill-considered in a political context.

70. It may be argued that the exceedingly short-term frame for adjustment adopted by IMF is a function of the limited size of its resources. It is pointed out, for example, that if the adjustment programme is to span a period of several years, the external financing required may be very substantial. In this connexion attention is drawn to the fact that Fund quotas declined from the equivalent of approximately 10 per cent of imports of member countries in the early 1950s to about 3 per cent in 1977.[29]

[29] Even when allowance is made for the effect of non-quota Fund facilities, the decline in quotas is still substantial.

71. Whilst the resources required for medium-term adjustment programmes may exceed the present resources of the Fund, it should be noted that even the limited financing now available has hardly been used. Despite their record deficits on current account, purchases by developing countries from the upper credit tranches during the period 1974-1978 have markedly declined. This serves to underline the point that increases in Fund resources must go hand in hand with fundamental revisions in conditionality practices.

CHAPTER III

A multilateral facility for international co-operation in payments adjustment

72. For the reasons given above, substantial improvements in the conditionality practices of IMF accompanied by increases in the resources at its disposal would help to bring the adjustment processes which it prescribes into closer accord with the strategies and needs of developing countries. Nevertheless a decisive step towards the provision of a satisfactory system of financing payments imbalances probably requires innovations in the existing framework of international monetary and financial co-operation.

73. As was noted earlier, except in the case of the compensatory financing facility the Fund's rationale for the provision of resources to countries in payments difficulties takes little account of the external sources of deficits. Yet payments imbalances are often associated with changes in global economic conditions or factors beyond the control of deficit countries such as the imposition of protectionist measures affecting their exports, world recession and inflation. In these circumstances the stress laid by IMF on the need for a programme of internal adjustment on the part of the country running the deficit will not be appropriate. Instead the financing of externally induced deficits should be carried out in a framework which makes proper allowance for the global dimensions of the problem and its relationship with the requirements for world trade, economic development, and the maintenance of high employment levels.

74. At present a major role in the financing of externally induced deficits is played by private capital markets. Whilst these markets will continue to be an important source of balance-of-payments finance in the future, they are not well suited to the task of shouldering the main burden of financing such deficits, especially in the case of the developing countries. The reasons for this include limitations on access to these markets and uncertainties concerning the availability of funds from them. At the same time the interest rates and other terms on which funds are available from private capital markets will often be inappropriate for many developing countries.

75. A step towards meeting this gap in the system of providing balance-of-payments finance would be the establishment of a multilateral facility to deal with externally induced deficits. The facility would make resources available on terms which recognized the long-term, structural character of many payments problems. It would assist countries in the financing of imbalances during the period required for the implementation of an agreed programme which took due account of the global aspects of the adjustment process. In this way it would meet an important institutional need. It would help to fill the gap between the largely short-term financing geared to programmes of national adjustment which is provided by IMF on the one hand and the long-term project financing available from the development institutions on the other. It would also provide a forum in which the adjustment process is treated in a manner that takes full cognizance of the interrelationship of problems in the areas of trade, development, money and finance. At the same time it would reduce dependence on private mechanisms of recycling for countries facing structural problems associated with externally induced deficits, whilst providing surplus countries with a safe outlet for their excess savings.

76. The size of the resources of the proposed facility should be flexible, since its financial requirements would vary with world economic conditions. But its finance must be available on terms which are appropriate to the debt-servicing capacity of all countries. Thus in the rules concerning the terms and conditions on which funds would be available from the facility, account should be taken of the special problems of lower-income developing countries. If these countries are to make effective use of the facility, it will be necessary to endow it with concessional finance.

77. This suggests that the funds of the facility should be provided from both private and public sources. It could borrow part of its requirements from private capital markets. But at the same time developed countries, especially surplus ones, might be expected to contribute directly to the facility. Another possible source of finance for it might be funds for official development assistance (ODA) which have been committed but not yet disbursed. These funds, whose amount is substantial, could be put at the disposal of the facility as soon as they had been appropriated by national legislatures. They would subsequently be drawn on by donor countries as they were required for the purposes for which they were originally approved.[30]

78. Committed but undisbursed ODA funds might be expected to be a revolving source of concessional finance whose amount would grow through time. A possible alternative technique for the use of these funds is also worthy of examination. This would be to establish an interest-subsidy account within the facility into which could be paid the interest earned on deposits with the banking system of committed but undisbursed ODA funds.

79. Various possibilities can be envisaged concerning the relationship of this facility to the existing network of international institutions. For example, it could be placed under the aegis of IMF or a multilateral development institution. Alternatively it could maintain close links with both. But this issue, together with the questions of the way in which the facility is to be set up and managed, can be settled at a leter stage after the Conference has considered the merits of the proposal in principle and agreed on appropriate follow-up action.

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[30] This possibility is also explored in document TD/234, reproduced in the present volume.

ANNEX

IMF facilities and their conditionality

Facility	*Conditions*	*Quota limits (percentage)*	*Maximum cumulative quota available[a] (percentage)*
Reserve tranche	The only condition attached to drawings under this facility is a balance-of-payments need. The repayment period is three to five years.	25	25
First credit tranche	Drawings may be either in the form of direct purchases or under a stand-by arrangement. The requesting member country must present to IMF an economic programme consisting of fiscal, monetary, exchange-rate, trade and payment policies which reflect reasonable efforts to overcome its balance-of-payments difficulties. In practice this has often meant that, when differences of judgement arise, the member receives the benefit of the doubt. The repayment period is three to five years.	25	50
Upper credit tranches	Drawings under these tranches are almost always under stand-by arrangements with specified drawing dates, and are subject to performance criteria which are detailed in the stabilization programme presented by the requesting member country and agreed by IMF. These criteria relate to such matters as domestic credit policy, prices and incomes policies, government financing, exchange rates, restrictive measures on trade and payments, external borrowing, and levels of reserves. Failure to meet the performance criteria leads to further consultation with IMF before additional drawings are made. The repayment period is three to five years.	75	125
Extended fund facility	Drawings under this facility are designed to provide assistance to countries in meeting balance-of-payments deficits for longer periods and in amounts larger in relation to quotas than under normal credit tranches. Drawings are made in instalments over a period of up to three years and are subject to the condition that the member agrees with the Fund on a programme setting forth the objectives and policies to be pursued during the whole term of the extended arrangement as well as a detailed statement of the measures to be carried out in each twelve-month period. The drawing of each instalment is subject to performance clauses. The repayment period is from four to eight years.	140	190 (with reserve and credit tranches)
Supplementary financing facility	The facility is designed to provide supplementary financing in the conjunction with other Fund resources to member countries facing payments imbalances which are large in relation to their quotas. Drawings are made under stand-by arrangements normally exceeding one year and lasting for as long as three years in appropriate cases. The drawings are intended to support programmes adopted under the use of upper credit tranches or the extended fund facility, and are subject to the same performance criteria. Repayments must begin not less than three and a half years after drawings and be completed within a period of seven years.	102.5	227.5 (with reserve and credit tranches) *or* 330 (with reserve and credit tranches and extend fund facility)
Compensatory financing facility	The facility is designed to extend support to member countries (especially exporters of primary commodities) experiencing balance-of-payments difficulties due to temporary export shortfalls. The Fund must be satisfied that the problem is short-term and largely attributable to circumstances beyond the country's control, and that the member will co-operate with the Fund in an effort to solve its payments problems. The export shortfall for the latest twelve-month period preceding a drawing request is defined on the basis of an estimate of the medium-term trend on the country's exports but can be modified in the light of judgements concerning its export prospects. Except in the case of emergencies, drawings cannot exceed 50 per cent of a member's quota in any twelve-month period, or 75 per cent of its quota in all. The repayment period is three to five years.	75	–[b]
Buffer stock financing facility	The facility is designed to assist in the financing of contributions to international buffer stocks of primary products by member countries with balance-of-payments difficulties. The commodity agreements must meet appropriate criteria (such as those laid down by the United Nations), and the member is expected to co-operate with the Fund in an effort to solve its balance-of-payments problems. The repayment period is three to five years (or less in the event of the buffer stock distributing cash to its members).	50	–[c]

[a] In the case of the reserve and credit tranches the maximum cumulative quota available is simply the sum of the figures in the column specifying quota limits. In other cases this maximum involves additional restrictions on the combined use of different facilities. Thus, for example, the combined use of the extended fund facility and the regular credit tranches may not exceed 165 per cent of a country's quota, to which the use of the reserve tranche can be added to bring the total up to 190 per cent of its quota.

[b] Drawings under the compensatory financing facility are separate from and additional to those under other facilities and tranches.

[c] Drawings under the buffer stock financing facility are separate from and additional to those under other facilities.

DOCUMENT TD/234

International financial co-operation for development
Current policy issues

Report by the UNCTAD secretariat

[*Original: English*]
[*9 February 1979*]

CONTENTS

Introduction

1. In establishing the minimum objective of 6 per cent for the annual average rate of growth in the GDP of the developing countries during the 1970s, the International Development Strategy for the Second United Nations Development Decade[1] envisaged that the annual net capital inflow into these countries required by this target would amount to 1 per cent of the GNP of the economically advanced countries. This was to supplement the foreign-exchange earnings from exports of the developing countries, whose annual average rate of growth in real terms during the same period was taken to be approximately 7 per cent. In order that a proper balance should be secured between concessional and non-concessional flows within the annual net capital inflow, the Strategy called on each economically advanced country to attain a figure of at least 0.7 per cent of its GNP for net disbursements of official development assistance (ODA) by the middle of the 1970s. This distribution between concessional and non-concessional flows was deemed necessary not only in order to keep the debt-servicing burden within reasonable limits but also to ensure that developing countries with low per capita incomes, which depend most heavily on ODA funds, were able to secure adequate finance to make it possible for them to achieve the target envisaged by the Strategy of doubling their incomes within a period of less than two decades.

2. As is shown elsewhere, the total net flow of capital has fallen short of these requirements.[2] It is shown, for example, that, if the volume of imports of developing countries had grown at an annual rate of about 7 per cent in the 1970s—as envisaged in the Strategy—additional financing significantly greater than the amount actually achieved would have been required in order to supplement the level of purchasing power of exports observed during that period.

3. It is also notable that within the total capital flows during the 1970s, official development assistance, which is the centre-piece of the system, showed least dynamism.

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

[2] See document TD/235, reproduced in the present volume.

Indeed, in real terms it increased only marginally between 1971 and 1977. During that same period the aggregate ratio of ODA to the GNP of the member countries of the Development Assistance Committee (DAC) of the Organisation for Economic Co-operation and Development (OECD), taken as a whole, declined from 0.34 per cent in 1971 to 0.30 per cent in 1977.

4. The shortfalls in both total capital flows and those of ODA have had an adverse impact on the development of developing countries, which have failed to achieve the rates of growth envisaged in the International Development Strategy. Dring the 1970s the annual growth of the GDP of developing countries as a group has so far averaged 5.4 per cent. This growth contains marked variations as between different countries. Thus, whilst for oil-exporting countries the average growth rate was more than 8 per cent during the period 1971-1977, the corresponding figure of 5.2 per cent for the non-oil-exporting developing countries remained at approximately the level achieved during the 1960s. Within the latter group the most seriously affected countries and the least developed countries, which account for about 60 per cent of the total population of developing countries and which are likely to be especially severely affected by shortfalls in ODA, grew at only about half the rate envisaged in the Strategy. When account is taken of the growth in their population, this implies that the per capita output of these countries has tended at best to register minimal increases and in some cases has declined.[3]

5. At its resumed first session (January 1979), the Committee of the Whole established under General Assembly resolution 32/174 of 19 December 1977 considered the question of the transfer of real resources to developing countries and reached certain conclusions.[4] The Committee agreed that "one of the main objectives of the fifth session of the United Nations Conference on Trade and Development will be to make significant progress on the question of the transfer of resources in all its aspects through decisions on concrete measures under the relevant agenda item".[5]

6. The present report focuses on certain issues raised by these developments and on measures that can be taken immediately to increase the availability of international financing for developing countries. Chapter I contains a more detailed review of recent trends in ODA and discusses measures designed to increase its flow in the medium term. Chapter II focuses on the efforts of multilateral development institutions and examines proposals both for increasing their resource base and for improving their *modus operandi*. Chapter III proposes various measures for improving the access of developing countries to capital markets. Chapter IV reviews the progress on measures taken in pursuance of Trade and Development Board resolution 165 (S-IX) of 11 March 1978 on the debt and development problems of developing countries. Chapter V contains a brief discussion of the case for establishing a multilateral export credit guarantee facility designed to promote the exports of developing countries.

[3] The external financing problems of the least developed countries are dealt with in detail in document TD/240, reproduced in the present volume.

[4] "Agreed conclusions on some aspects of the transfer of resources in real terms to developing countries" (*Official Records of the General Assembly, Thirty-fourth Session, Supplement No. 34* (A/34/34), part one, para. 13).

[5] Para. 21 of the agreed conclusions.

CHAPTER I

Official development assistance

A. Recent performance of developed donor countries

7. As was noted above, the volume of ODA in real terms stagnated between 1971 and 1977. For the DAC member countries as a group, the ratio of ODA to GNP fell from 0.34 per cent in 1971 to 0.30 per cent in 1977.

8. The performance of individual DAC member countries with respect to the 0.7 per cent target has varied widely. Of the 17 DAC member countries, 9 increased their ODA/GNP ratio between 1971 and 1977, whereas in the case of the remaining 8 the ratio declined. Within the first group, three countries—the Netherlands, Norway and Sweden—surpassed the target by a substantial margin and on the basis of present policies are expected to reach a figure of 1 per cent for their ODA/GNP ratio by the end of the decade.

9. In the second group, which includes the largest economies among the 17, the ODA/GNP ratio for each of the countries has fallen since the earlier part of the decade, and, with the exception of France, is lower than the average figure for DAC countries as a whole. Within this group, the Federal Republic of Germany, Japan and the United States of America, which accounted for 66 per cent of DAC GNP and 47 per cent of DAC ODA in 1977, allocated only 0.20, 0.21 and 0.10 per cent respectively of the increment in their GNP during the 1970s to ODA budgets. In each of these three countries, net ODA disbursements have lagged significantly behind increases in other public expenditures during the period 1971-1977.

10. It is noteworthy that several of the countries that failed to implement substantial increases in their ODA programmes, notably the Federal Republic of Germany, Japan and Switzerland, have at the same time experienced persistent surpluses in their balance of payments. It can be argued that it is precisely those countries with persistent surpluses in their balance of payments which have the greatest obligation to contribute to the successful functioning of the global adjustment process through the provision of long-term finance on a substantial scale.

11. The 1970s has been a period during which many DAC member countries have attempted to curtail the growth of public expenditure as a means of restraining inflationary pressures. However, it is questionable whether ODA appropriations should be amongst the items which bear the brunt of this adjustment. In the first place, such a policy is inconsistent with repeated commitments on the part of developed countries that they will increase substantially and effectively their ODA. Moreover, it is doubtful whether the curtailment of ODA appropriations is a sensible way of combating inflation in the face of widespread unemployment and unused capacity in those sectors which usually produce the capital-goods exports financed by aid.

12. It has frequently been pointed out that the provision of ODA does not command adequate support amongst the general public in developed countries. One of the problems in this connexion lies in the manner in which the impact of concessional transfers has been presented. These transfers have been construed either in terms of the cost to the taxpayer or as a competing claim on resources which might be employed more usefully in other ways. However, adequate recognition is not given to the argument that the provision of external assistance can be beneficial to both developed and developing countries, and its potential as a key component of a new form of international economic co-operation is not fully acknowledged. Moreover, in the context of widespread recession and unemployment in developed countries, an acceleration in the provision of external finance has a potential role to play in stimulating economic recovery, particularly in industries with substantial unused capacity. It should be noted in this connexion that at the first session of the Committee of the Whole the representatives of a number of developed countries drew attention to the benefits that might accrue to the developed world from measures designed to increase resource transfers to developing countries.[6]

13. Reliable information is not available concerning the assistance programmes of socialist countries of Eastern Europe. However, available evidence suggests that net flows of resources from this source to developing countries have not increased and may in fact have declined during the Second United Nations Development Decade. Capital flows from these countries are an integral part of the evolution of their economic co-operation with the developing world. As there are plans for increasing the scope of this co-operation, it is reasonable to anticipate that net capital flows will increase *pari passu.* In this context the planning process of developing countries as well as the assessment of their total external capital requirements would be facilitated if the socialist countries of Eastern Europe were to establish and announce indicative plans of financial co-operation with developing countries.

14. It has been clear for some time now that the ODA target established by the Strategy could not be met by the end of the decade. In fact, on the basis of present policies, the ratio of ODA to GNP is likely to be significantly lower in 1980 than it was at the beginning of the 1970s. On the other hand, substantial increases in ODA over present levels are required if internationally accepted goals for the development of developing countries are to be achieved. Indeed, available evidence suggests that, if developing countries during the 1980s are to offset the shortfalls in the target rate of growth of 6 per cent experienced in the current decade, ODA requirements may well exceed those implied by the current minimum target of 0.7 per cent of the GNP of developed countries.[7]

B. Interim objectives to augment the volume of ODA

15. The growing gap between the aid performance of developed countries and the external financing requirements of developing countries has been a source of serious concern for some time and will no doubt be the focus of the deliberations on the establishment of a new international development strategy for the 1980s. Without prejudice to any norms and mechanisms which may be adopted as part of the strategy for the 1980s, it is important that immediate steps be taken to reverse current trends with a view to moving towards the attainment of the ODA target as soon as possible.[8]

16. In order to ensure that ODA increases in a timely and predictable way, the suggestion has been made that each DAC member country should adopt an interim three-year plan under which it would commit itself to disburse ODA at an agreed minimum rate. The plan would involve relatively greater efforts on the part of countries whose performance has lagged behind in the past.

17. The interim plan is based on the assumption that those DAC member countries which have not already achieved the 0.7 per cent target will steadily increase their ODA/GNP ratio so that this figure is attained by 1985. The table illustrates certain implications of the adoption of the interim plan for the ODA programmes of DAC member countries between 1979 and 1982. It shows how far these countries' ODA/GNP ratios will have progressed towards the 0.7 per cent target on certain assumptions about the future rate of growth of their GNP. As has already been mentioned, the Netherlands, Norway and Sweden are expected to attain an ODA/GNP ratio of 1 per cent by the end of the decade on the basis of a continuation of present policies. So in the case of these countries it was assumed that, once the 1 per cent figure has been achieved, it will be maintained subsequently through increases in ODA which match those of projected GNP.

18. For DAC countries as a group, the rate of growth of ODA in real terms under the interim plan would be about 18 per cent between 1979 and 1982. The projections in the table imply that countries whose ODA/GNP ratios are furthest from the 0.7 per cent figure would have to make proportionately the greatest efforts. This would be particularly true for certain major donors, namely the Federal Republic of Germany, Japan and the United States.

19. The adoption of an intermediate plan of the magnitude discussed above is predicated on the assumption that developed countries will now be prepared to attach higher priority to providing concessional resources commensurate with developing countries' requirements. If the requisite political will exists, there should be no insurmountable obstacles to implementing such a plan. During earlier periods, a number of donor countries, including the Federal Republic of Germany and Japan,[9] have found it possible to establish medium-term plans designed to increase their assistance programmes. A

[6] See for example, the proposals submitted by Sweden (A/AC.191/12) and Austria (A/AC.191/15).

[7] See document TD/235, reproduced in the present volume.

[8] It should be noted that the norms that may be included in the new strategy cannot be taken into account by Governments before the 1980/81 budget period and that, in view of the time lag between commitments and disbursements, the full effect of these norms will not be felt before 1983.

[9] In the case of Japan, recent information suggests that its target of doubling the dollar value of its ODA between 1977 and 1980 may be realized one year earlier than planned. Although it is true that a major factor accounting for the growth in the dollar value of disbursements is the appreciation of the yen, available evidence suggests that the adoption of the medium-term plan has helped the Government to focus its efforts in this area.

Implications of a three-year plan to accelerate disbursements of official development assistance (ODA)

(Percentages)

Country	*Rate of growth of ODA disbursements in constant prices and dollars 1971-1977*	*Ratio of ODA to GNP 1977*	*Required rate of growth of ODA disbursements in constant prices and dollars 1979-1982*[a,b]	*Ratio of ODA to GNP 1982*[b]
Australia	0.69	0.45	9.8	0.60
Austria	28.73	0.24	22.2	0.48
Belgium	2.59	0.45	8.0	0.61
Canada	7.78	0.51	9.8	0.63
Denmark	9.81	0.61	2.8	0.67
Finland	9.48	0.17	30.3	0.44
France	0.99	0.63	5.6	0.67
Germany, Fed. Rep. of	−1.34	0.26	18.1	0.53
Italy	−7.34	0.09	41.5	0.37
Japan	5.39	0.21	27.9	0.45
Netherlands	11.96	0.84	5.7	1.00
New Zealand	9.63	0.35	17.6	0.56
Norway	22.20	0.82	7.0	1.00
Sweden	15.28	0.99	3.2	1.00
Switzerland	11.19	0.19	26.7	0.43
United Kingdom	−1.49	0.38	12.7	0.57
United States of America	−4.85	0.22	25.6	0.50
Total DAC members	0.31	0.30	17.9	0.55

Source: UNCTAD secretariat.

[a] Obtained on the basis of the assumption that each DAC member country except the Netherlands, Norway and Sweden would meet, as a minimum, the 0.7 per cent ODA target by 1985. Of the three countries Sweden is assumed to attain 1.0 per cent ODA ratio by 1980 whereas the Netherlands and Norway are projected to attain similar ODA ratios by 1981.

[b] Projected GNP of DAC member countries based on forecasts provided by "Project Link", which is a co-operative project involving several research institutions and organizations. For a description of the Link project, see "Trade prospects and capital needs of developing countries, 1976-1980: report by the UNCTAD secretariat—Addendum: Regional results and methodology" (TD/B/C.3/134/Add.1).

number of other countries, including Canada, Denmark, the Netherlands, Sweden and the United Kingdom, have already adopted medium-term plans for their ODA budgets. Thus the proposal mentioned above is not inconsistent with the actual practice of many donor countries at present or in the recent past. Moreover, its adoption would represent a positive contribution by developed countries towards rendering the present system of international financial co-operation operationally meaningful.

C. Measures to implement a three-year plan for ODA

20. The plan outlined above requires not only the political will to commit the funds but also considerable changes in the techniques of lending so as to make possible a substantial acceleration in the rate of disbursement. In fact, during the 1970s the gap between the growth in the levels of commitments on the one hand and disbursements on the other has tended to widen. Thus in 1970 the difference between the two magnitudes amounted to 0.03 per cent of the GNP of DAC member countries, but by 1977 it had increased nearly fourfold (to a figure of 0.11 per cent). If ODA disbursements of DAC members had grown at the same rate as their commitments, they would have exceeded the amount actually achieved in 1977 by about $3 billion.

21. Various factors lie behind this growing gap. For example, the present methods of providing concessional resources, with their emphasis on project financing characterized by long lags in the preparatory negotiations over both financing and actual implementation, have undoubtedly contributed to the recent decline in the rate of growth of disbursements. The shifts towards projects for rural development and "new-style" social and economic priorities have also probably contributed to this. Moreover it is known that many projects are delayed because of inadequate local-cost financing.[10]

22. Paradoxically, the form of assistance that minimizes the time lag between commitments and disbursements, namely programme assistance, has not been used to the extent which its effectiveness warrants or on the scale requested by developing countries themselves. It should also be noted in this context that the potential inherent in local-cost financing, which, *inter alia,* can contribute to speedier disbursements and earlier implementation of projects, has yet to be fully exploited. As is noted below, expansion of both programme assistance and local-cost financing would greatly improve the quality of ODA. But it should also be borne in mind that it would contribute to accelerating the rate of disbursement.

D. A proposal to mobilize resources in the ODA pipeline

23. Notwithstanding the positive role that expansion of programme assistance and local-cost financing can play in ensuring timely implementation of a stepped-up plan for

[10] See, for example, World Bank, *Annual Report 1978* (Washington, D.C.), p. 9.

ODA, the absolute value of commitments in the pipeline, which may be as high as $10 billion, will probably continue to grow. Consideration, therefore, might be given to the possibility of making use of the committed but undisbursed funds for general development purposes. For example, as soon as funds for ODA programmes are approved by national legislatures, they might be placed in an international fund. Each donor country would draw down the monies which it had previously paid into the fund at the rate required for the financing of programmes for which the funds were originally approved. Given that ODA commitments would continue to increase, total resources of the fund are most unlikely to decrease; in fact, they might be expected to increase over time.

24. This permanent but revolving pool of ODA funds could be used for the purposes of extending longer-term (say 10-year) balance-of-payments support loans to ODA recipient countries on concessional terms. This arrangement would provide recipient countries with financial resources which are not available to them from any other source at reasonable cost and which are urgently needed if these countries are to carry out structural adjustments so as to deal more effectively with externally induced deficits. While in certain cases changes in the existing budgetary rules and procedures might be required, the international pooling of ODA funds would not be inconsistent with the intentions of legislatures since the funds would continue to be used for the purposes for which they were intended and according to the time scale originally envisaged.

25. An alternative that would avoid possible complications in seeking legislative approval for what is tantamount to the establishment of a multilateral fund would be to make use only of the interest earnings on the pooled ODA funds. This income could be used to subsidize interest payments of ODA recipient countries on drawings from a multilateral balance-of-payments facility that would operate at close to commercial terms.[11]

E. Terms and conditions of ODA

26. The terms and conditions of ODA cover a wide variety of issues associated with the quality of assistance, including the actual terms and conditions on which ODA funds are made available, as well as various matters relating to the lending techniques employed. Thus, the issues involved include not only the degree of concessionality of ODA, but also untying and the share of programme assistance and local-cost financing. All these subjects were discussed by the Committee of the Whole established under General Assembly resolution 32/174 at its meeting in January 1979.

27. The bulk of ODA is provided in the form of project financing, with programme assistance and local-cost financing playing relatively minor roles. The question of the proper balance between project and non-project assistance has been the subject of prolonged debates in various international forums, including UNCTAD. While developing countries have stressed the need for substantial increases in the share of non-project assistance, developed countries, for a variety of reasons, have been reluctant to endorse this principle as a general rule.

28. The general economic circumstances of the recent years have given added significance to this issue, which is intimately linked to the question of shortages of "freely" usable foreign-exchange receipts. The amount of "freely" usable foreign exchange at the disposal of developing countries consists principally of export earnings. However, the rising obligations of debt servicing have progressively reduced the proportion of export earnings which can be considered as "freely" usable and, to that extent, have placed additional constraints on the programming and management of developing countries' investment budgets.

29. These difficulties could be reduced if more ODA were to be made available in the form of programme assistance. Moreover, programme loans are particularly suited to present world economic conditions where many developing countries face balance-of-payments problems which result from factors beyond their control and require long-term adjustment of their domestic structures. Finally, in the face of serious under-utilization of productive capacity in many developing countries resulting from their inability to finance imports, programme finance is likely to have a more immediate impact in raising output than development assistance tied to particular projects. These considerations indicate that there is a case for a substantial increase in the share of aid in the form of programme assistance. In this connexion consideration might be given to the establishment of the norm that at least 25 per cent of total bilateral ODA should be in the form of programme loans.

30. There is an equally compelling case for financing through resource transfers a larger volume of the local expenditures associated with externally financed projects. The traditional approach of bilateral as well as multilateral donors has been to limit financing to the foreign-exchange requirements associated with particular projects. This approach, however, narrows the scope of donors' activities in so far as it eliminates projects with a relatively small foreign-exchange component which would otherwise merit consideration. This tends to limit the contribution which foreign assistance can make to the development process. The argument is frequently made that a scarcity of well prepared and bankable projects has prevented a more rapid absorption of available aid funds. This shortcoming, however, in part reflects the policy of bilateral donors and multilateral institutions which limits the financing of local expenditures. In fact, the distinction between locally and externally financed projects from both an operational and an analytical standpoint is not very clear. The case for financing a given project should rest on the contribution which it will make towards the economic and social development of the recipient country. Investment in sectors such as agriculture, rural development, education and health services is likely to involve local costs in excess of their foreign-exchange component alone.

31. It has long been recognized that the practice of tying procurement to donor-country suppliers can reduce the value of ODA funds to recipients by preventing them from buying in the cheapest market. However, efforts within DAC to conclude an agreement on the untying of ODA have proved unsuccessful. This is partly the result of balance-of-payments problems in a number of donor

[11] For a discussion of the need for such a form of financing and the establishment of a multilateral facility for this purpose, see document TD/233, reproduced in the present volume.

countries. But it is also true that the motivation for many donors' aid programmes includes assistance in the promotion of their exports. The difficulties encountered in instituting arrangements for generalized untying have led to a number of "second-best" approaches, such as providing untied financial resources to multilateral institutions, untying in favour of developing countries only, and reciprocal untying amongst smaller groups of donor countries. Welcome as these measures may be, they fall far short of the objective of multilateral untying of ODA.

32. There is a need for examining measures which will help towards generalized untying, including the possibility of convening a United Nations conference to negotiate an international agreement on the multilateral untying of ODA by the end of the present decade.

33. On the degree of concessionality of ODA, Trade and Development Board resolution 150 (XVI) of 23 October 1976 represented an important step forward, in particular in its institution of 90 per cent as the minimum average grant element for ODA. Moreover it is agreed that ODA to the least developed countries should be essentially in the form of grants. Recently the suggestion has been made that there should be a further increase in the grant element of ODA, to 95 per cent. In addition, the Committee of the Whole established under General Assembly Resolution 32/174 called attention at its meeting in January 1979 to various measures which would improve the terms and conditions of ODA.[12]

34. The Trade and Development Board, in its resolution 150 (XVI), also asked developed countries to study various proposals for altering the definition of ODA, and proposed that the qualifying grant element threshold be raised to 50 per cent. At its January 1979 meeting, the Committee of the Whole agreed that further consideration should be given by developed countries to the modification of the concept of ODA with a view to its improvement.[13]

CHAPTER II

Multilateral development institutions

35. The multilateral development institutions are an important channel for disbursing long-term finance to developing countries. Though the lending of these institutions has increased significantly in the recent past, their share in the transfer of long-term financial resources to developing countries is still relatively modest. It stood at 13 per cent in 1977, up only marginally from the 12 per cent observed in 1971.

36. The multilateral development institutions are expected to play a key and catalytic role in the financing of the economic and social development of developing countries, and to become important operational mechanisms for carrying out the broader development objectives agreed in the United Nations system. In this context they can help to redirect capital flows in a manner that will bring about structural changes in the world economy consistent with a new international economic order. Moreover, they can provide a lead in evolving new lending techniques, and thus enhance both the volume and quality of investments in developing countries. Finally, their lending policies, particularly through the way in which their resources are distributed, can redress possible imbalances that emerge from the policies of bilateral donors and the operations of the private capital markets. For a variety of reasons, however, including restrictions in their charters and the character of their decision-making processes, the multilateral institutions have not been able to take full advantage of their own potential.

37. The future role of these institutions depends very much on two factors: first, the volume and quality of the financial resources placed at their disposal; and secondly, the extent to which their lending programmes and policies make the fullest possible contribution to the development objectives of recipient countries.

A. The resource base of the multilateral development institutions

38. Multilateral development institutions provide resources through both their "soft" loan windows and their regular lending programmes. The ability of these institutions to maintain the pace of their concessional lending programmes is closely related to the willingness of donors to replenish the resources of "soft" loan windows on an assured basis. Present procedures in this area, which are marked by protracted delays in negotiating internationally the size of the resources to be replenished and in obtaining authorization from national legislatures, cause considerable uncertainty concerning the availability of funds, and at times have even raised serious questions regarding the viability of "soft" loan financing. Moreover, as a result of the inflationary tendencies characterizing the world economy in recent years, there is a significant erosion of the value of the assistance by the time commitments are actually disbursed to the recipients. In order to provide longer-term assurance concerning the continuity of the operations of "soft" loan windows, it would seem appropriate that the replenishment periods should be extended to five years and that the replenishment exercises should embody provisions that ensure a substantial annual increase of resource transfers to developing countries in real terms. In the long run, however, the provision of resources to the "soft" loan windows should be placed on a more assured footing by making provision for automatic replenishment. This could be secured, for instance, by channelling to them part of the proceeds of an internationally levied development tax and by linking allocations of special drawing rights to the provision of additional development assistance.[14]

39. The regular lending programmes of multilateral development institutions are based on funds which they borrow from private capital markets. The process of intermediation which these institutions perform depends on their ability to call upon the very substantial paid-in and callable capital at their disposal. Indeed, since the charters

[12] See "Agreed conclusions on some aspects of the transfer of resources in real terms to developing countries", para. 8 (see foot-note 4 above).

[13] *Idem*, para. 9.

[14] This issue is discussed in document TD/235, reproduced in the present volume.

of the multilateral lending institutions stipulate that their outstanding debt should not exceed their unimpaired subscribed capital, surplus and reserves, their capacity to continue to expand their lending in real terms requires continuing expansion in their capital base. Thus, if the institutions are to play their expected role in the provision of long-term finance, it is essential that their capital base should be significantly increased. Consultations are now under way regarding a general increase of the capital base of the World Bank. It is to be hoped that an agreement will be reached that would enable the Bank to expand its lending programme in real terms at a rate higher than that attained in the 1970s.

B. Policies and programmes of multilateral development institutions

40. Mechanisms for increasing the lending capacity of the multilateral development institutions are a necessary but by no means a sufficient condition for the realization of the full potential of these institutions in the field of international financial co-operation. If this aim is to be achieved, it will be necessary to ensure that the lending policies and programmes of these institutions meet the external financing needs of recipient countries in a manner which is consistent with the development norms of the International Development Strategy.[15] Until now, however, the *modus operandi* of these institutions has not always met these requirements. In the first place, there exist no effective arrangements that link in a functional way the broad development principles and objectives agreed upon in the United Nations system and the financing operations of the multilateral development institutions. A risk that arises in this connexion is that, in the absence of effective links of this kind, these institutions may have to evolve their own conceptual framework for development as a guide to their operational activities. In the face of differences between the decision-making processes of the multilateral institutions and those of the United Nations bodies, there exists a real possibility that conflicting views about development priorities may emerge. In the light of the preparations now being made for a new development strategy, this issue takes on a special significance, and it is incumbent upon Governments to consider what arrangements should be made in order to ensure a greater degree of consistency between the broad development objectives adopted by the General Assembly and other United Nations forums and the operations of the multilateral development institutions.

41. Another issue raised by the lending policies and programmes of the multilateral development institutions concerns their failure to take full account of the particular needs of recipient countries. This appears to be the consequence partly of constraints embodied in rules inscribed in their articles of agreement, which in the case of the World Bank have not been the subject of revision since 1945, and partly of the decision-making structures of these institutions, in which the perception of developed countries regarding development problems predominates. For example, developing countries have repeatedly requested that the share of programme loans and local-cost financing in the total lending of multilateral development institutions should be significantly increased.[16] However, in recent years, precisely when the need for balance-of-payments support on a longer-term basis was greatest, the share of programme loans in total lending has been well below the 10 per cent level that the World Bank set itself in 1971. These institutions often justify their reluctance to undertake programme financing on the grounds that strict interpretation of their charters requires that programme loans be extended only in "exceptional" circumstances. On the other hand, in various United Nations forums, a consensus has been reached that the circumstances facing many developing countries are indeed exceptional.

42. It is hoped that arrangements can be made to enable the multilateral development institutions to expand their programme assistance and local-cost financing and to reach the norms for bilateral development assistance recommended above (para. 30).

C. Role of multilateral development institutions in the provision of guarantees

43. When the World Bank was established, it was envisaged that it would make a major contribution to improving its members' access to international capital markets through the provision of guarantees. Though the Bank did make some use of its guarantee power in the earlier phases of its development, it has subsequently become almost exclusively a project-financing institution. The same is true for the other multilateral development institutions.

44. In recent years considerable attention has been given to the contribution which multilateral institutions might make toward facilitating developing countries' access to international capital markets, and in this context the possible use of their guarantee powers is again under scrutiny. One obstacle to the use of these powers is the charters of these institutions, which require that a charge corresponding to the full amount of the guarantee be made against their capital resources. However, guarantees involve only a sharing of responsibilities in the case of default. Once it is accepted that the actual resource requirements which guarantees entail are much less than their face value, then on the basis of a given amount of subscribed capital it would become possible to mobilize a much larger sum of total financing. The advantages associated with the leverage made possible by providing callable capital on a contingency basis have been widely recognized at a national level.[17] Thus the application of this principle at an international level should not present insurmountable problems since the probability of the contingent callable funds actually being required would be very low and the calls themselves known well in advance.

45. Two possible approaches to achieving this objective in practice are worthy of consideration. One would be to amend the charters of the multilateral development insti-

[15] See the agreed conclusions of the Committee of the Whole established under General Assembly resolution 32/134, para. 13 (see foot-note 4 above).

[16] *Idem.*

[17] For example, the Charter of the United States Export-Import Bank enables it to count the guarantees which it extends to third parties as contingent liabilities for which an initial provision is made of only 25 per cent of the total amount guaranteed.

tutions in such a way as to permit them to book the obligations resulting from guarantees at less than their full face value. The other would involve the establishment of a separate multilateral facility (perhaps in association with existing multilateral development institutions), whose guarantee powers would be based partly on paid-in capital and partly on a much larger sum represented by funds callable only on a contingent basis. Several of the problems associated with the establishment of a facility of this kind, such as the precise legal status of its guarantees and the question whether it should cover loans from commercial banks as well as bond issues, are discussed in more detail elsewhere.[18]

CHAPTER III

Selected measures to improve the access of developing countries to capital markets

46. In view of their greater participation in international capital markets in recent years, developing countries are increasingly concerned with the rules and regulations which restrict their access to these markets. These restrictions encompass four broad areas. In the first place there are statutory provisions which limit the extent to which private institutions in developed countries can acquire debt securities issued by developing-country borrowers. In some developed countries, for instance, regulations prescribe the maximum percentage of the assets of financial institutions, such as insurance companies or pension funds, which can be invested in foreign securities. A second set of restrictions consists of administrative measures governing the issuance of foreign bonds in domestic capital markets. These frequently include the need for prior permission from one or more regulatory agencies, requirements for disclosure of information in much greater detail than for domestic issues, and limitations relating to the timing of issues. A third set of restrictions takes the form of higher taxes or lower tax exemption on interest earned on foreign as opposed to domestic bonds. Finally, general policy measures designed to control capital outflows also adversely influence the capacity of developing countries to raise resources in the capital markets of several developed countries.

47. In each of these areas considerable scope exists for relaxing or eliminating the restrictions in so far as they bear on developing-country borrowers. In its consideration of this issue at its meeting in 1976, the Joint Ministerial Committee of the Boards of Governors of the Bank and the Fund on the Transfer of Real Resources to Developing Countries (Development Committee) recommended that countries with developed capital markets (capital-market countries) should, as far as their balance-of-payments situation permitted, endeavour to move progressively towards greater liberalization of capital movements with particular stress on outflows. Recent information suggests that capital-exporting countries have not fully implemented the recommendations of the Development Committee. In the light of the growing requirements of many developing countries for continuous and improved access to private capital markets, the following set of measures, which are broadly consistent with the recommendations of the Development Committee, should be implemented as rapidly as possible:

(*a*) Governments of capital-market countries, particularly those whose currencies are in strong demand, should extend favourable treatment amongst foreign borrowers to developing countries with regard to permission to make an issue or secure a place in the issue calendar;

(*b*) Capital-market countries which currently maintain quantitative limits on the amount of foreign issues in their markets should exempt developing-country borrowers from these limits;

(*c*) Governments of capital-market countries should adopt a flexible attitude concerning rules and regulations which prescribe limits on the investments of institutional investors in foreign securities in so far as these adversely affect developing-country borrowers;

(*d*) Those countries which have complex statutory requirements for registration and listing of securities should attempt to administer their regulations in a flexible manner in so far as they inhibit developing countries from seeking access to capital markets.

CHAPTER IV

Issues arising from Trade and Development Board resolution 165 (S-IX)

48. The problem of the external indebtedness of developing countries has been under consideration within UNCTAD for several years. In Conference resolution 94 (IV) on debt problems of developing countries, developed countries pledged themselves to quick and constructive consideration of individual requests to provide relief to developing countries suffering from debt-service difficulties, in particular least developed countries and most seriously affected developing countries. The resolution also called for a ministerial session of the Trade and Development Board to be devoted to the debt problems of developing countries.

49. At the third (ministerial) part of the ninth special session of the Board, which was held in March 1978,[19] the Secretary-General of UNCTAD in his statement to the Board noted that the most urgent issue concerning debt before the Board was that of taking international measures in favour of the least developed, developing land-locked and developing island countries and other most seriously affected countries. The Secretary-General suggested that the Board might wish to consider reaching an agreement on the basis of which each developed donor country would take the necessary measures to increase the grant element of the outstanding official debt owed to it by the above-mentioned group of countries to a level consistent

[18] See the report of the Group of High-level Experts on finance for development (*Official Records of the Trade and Development Board, Eighteenth Session, Annexes*, agenda item 5, document TD/B/722).

[19] For the report of the Board on the third (ministerial) part of its ninth special session, see *Official Records of the General Assembly, Thirty-third Session, Supplement No. 15* (A/33/15), vol. I, part two.

with current ODA terms.[20] Within this objective, the Secretary-General noted that the conversion of the outstanding loans of the least developed countries into grants would seem appropriate.

50. Following a favourable response by developed countries to the suggestion of the Secretary-General of UNCTAD, the Board at the third (ministerial) part of its ninth special session adopted by consensus resolution 165 (S-IX) on the debt and development problems of developing countries. In paragraph 3 of that resolution, the Board noted with interest the suggestions made by the Secretary-General of UNCTAD with respect to an adjustment of terms of past bilateral official development assistance in order to bring them into line with the currently prevailing softer terms. In paragraph 4 of the resolution the Board stated that developed donor countries would seek to adopt measures for such an adjustment of terms of past bilateral official development assistance, or other equivalent measures, as a means of improving the net flows of official development assistance in order to enhance the development efforts of those developing countries in the light of internationally agreed objectives and conclusions on aid. According to tentative calculations by the UNCTAD secretariat, resolution 165 (S-IX), if implemented fully, would result in a reduction of the annual debt burden of the beneficiary countries by a little more than $600 million in each of the next 10 years.

51. Since the adoption of Board resolution 165 (S-IX), a number of developed countries have taken specific actions concerning the retroactive adjustment of terms on outstanding bilateral ODA debt.[21] The measures adopted by the various developed donor countries tend to vary considerably both as regards their beneficiary countries and as regards the degree of adjustment. Thus, whilst some have taken actions in favour of the most seriously affected countries, including least developed countries, others have restricted their coverage to the least developed countries only. In the light of these variations in the scope of actions taken in pursuance of Board resolution 165 (S-IX), the question arises whether all of the developed donor countries have fulfilled the terms of that resolution. In its consideration of the issue, the Conference may wish to assess the policy measures taken by individual developed countries, their conformity with the spirit of resolution 165 (S-IX) and, in that connexion, consider appropriate further action.

52. International consideration of the problems of external indebtedness of developing countries has also focused attention on the question of establishing appropriate rules and multilateral machinery for future operations relating to debt problems of interested developing countries. The essential feature of such a multilateral framework has been the increasing awareness that debt reorganizations should be development-oriented operations rather than short-term financial stabilization exercises, so as to enable the debtor country to overcome its underlying problems and resume its development path. Section B of resolution 165 (S-IX) gave considerable impetus to these efforts by identifying four basic concepts relevant to future debt operations and calling for a meeting of an intergovernmental group of experts to work out what were termed the "detailed features" to provide guidance for future debt operations.

53. The Intergovernmental Group of Experts on Debt and Development Problems of Developing Countries met from 2 to 11 October 1978.[22] In organizing its deliberations, the Group decided to draw up the detailed features relating to future debt operations in four chapters: (i) preamble; (ii) objectives; (iii) operational framework, including initiation, analysis, and action; and (iv) institutional arrangements.

54. Whilst it was not possible for the Group to reach full agreement, the Chairman, in an informal note which the Group decided to annex to its report for consideration by the Trade and Development Board at its tenth special session, noted that areas of agreement existed with respect to the preamble and objectives. A key objective noted was that international action on the debt operation should enhance the development prospects of the debtor country, bearing in mind its socio-economic priorities and the internationally agreed objectives for the development of developing countries. With respect to the chapter relating to the operational framework, including initiation, analysis and action, the Group was able to reach agreement on initiation procedures—specifically that the country concerned might request such consideration at an early stage, when, in its judgement, the problem involving indebtedness existed or was likely to emerge. The Group was also able to make substantial progress relating to the type of action which would be included in the debt operation.

55. The issue of analysis, however, posed some problems, which arose from divergences as to the nature of the debt problem. It was acknowledged by all that in practice the debt problems of developing countries often combined problems of a longer-term structural nature with acute balance-of-payments difficulties. Board resolution 165 (S-IX) refers in paragraph 10 (*b*) to the need to take into account the nature of the problem, which may vary from acute balance-of-payments difficulties requiring immediate action to longer term situations relating to structural, financial and transfer-of-resources problems requiring appropriate longer term measures. Nonetheless, experts from developed countries maintained that debt problems were in essence—and self-evidently—either longer term structural problems of acute balance-of-payments problems, and that even when they were combined in a particular situation the two aspects could be treated quite separately and independently. Experts from developing countries did not share this view. They felt that it was quite unrealistic to compartmentalize a country's debt and development prolems in such a way. Measures to tackle a country's acute balance-of-payments problems could be successful in helping it to overcome its underlying debt and development

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[20] Board resolution 150 (XVI) recommends a grant element of 90 per cent for ODA disbursements to developing countries. In 1976, the grant element of ODA commitments by DAC members to developing countries and multilateral agencies was 89.3 per cent; in the case of least developed countries, it has been agreed that ODA should be essentially on a grant basis.

[21] Official information is not as yet available to the UNCTAD secretariat. The information to be provided by Governments will be issued in addenda to the present document.

[22] For the report of the Group, see *Official Records of the Trade and Development Board, Tenth Special Session, Annexes,* agenda item 3, document TD/B/730.

problems only if they were drawn up in conjunction with the over-all measures proposed in that context.

56. As regards the chapter on institutional arrangements, the Group was not able to reach any agreement. However, there appears to be an increasing awareness that, in the elaboration of appropriate institutional arrangements, a number of general principles deserve special consideration. First, in order to be effective, the machinery should enjoy the confidence of both debtors and creditors. Second, the machinery should be guided by development considerations and in that connexion should safeguard the welfare of the people in the debtor country and support the country's own efforts to pursue its socio-economic programme. Third, the institutional arrangements should bring expertise to bear which is respected by all parties and designed to ensure timely action with the assistance of relevant international institutions.

57. As a means of meeting these requirements, the suggestion has been made that an independent debt commission could be established by the General Assembly. Such a commission, with the help of relevant international institutions, would have the responsibility of examining the nature of the debt problem referred to it by the debtor country concerned, making recommendations, and convening meetings of all interested parties at which commitments would be made in a co-operative effort to resolve the underlying problems of the debtor country. During this process the relevant international institutions, including UNCTAD, would participate in the operation and provide all appropriate assistance to the debtor country in preparing its case, including, for example, analysis of the implications of different policy recommendations for its future development.

58. It may be argued that the requirements of an appropriate multilateral framework could be met by evolution of the existing arrangements, supplemented, if necessary, by new ones. It is suggested, for example, that the debtor developing country could be given the option of approaching, if it so wished, a creditor club or a meeting organized by the World Bank, or indeed both. Each debtor developing country itself would take its own sovereign decision as to which of the alternatives to follow.

59. As regards creditor clubs, it would be necessary to consider how their creditor-centred character might be modified in order to transform them into a truly multilateral mechanism for international co-operation. In this connexion, considerable interest has been expressed in the suggestion that the creditor club might be chaired by an independent person of eminence rather than by a representative of one of the principal creditor countries. The suggestion has been made that a roster of eminent personalities with wide experience in the area of development and debt might be named by the General Assembly for this purpose. In initiating approaches to a creditor club, a developing debtor country would address itself to one of these personalities and invite him to make the necessary preparations, assisted by appropriate international institutions (including the multilateral development banks concerned, UNCTAD and IMF), for convening the meeting. Thus the creditor-club operation under this arrangement might be able to give sufficient weight to the development aspects of debt problems and provide machinery for a comprehensive examination of them together with co-ordinated action so as to use all the various means available, including balance-of-payments facilities, debt reorganization and loans from both multilateral financial institutions and bilateral sources, in the most effective way. This would help avoid the present situation where the debtor country has to approach a series of international and national institutions on an *ad hoc* basis.

60. As regards the option of a meeting sponsored by the World Bank, it has been proposed that any developing country which feels it has longer term structural problems may initiate such a meeting. The question has been raised as to how an institution which is itself an increasingly important creditor could best manage what in effect would be a debt consortium. This involves contentious issues and may require some careful consideration. With regard to other arrangements, as in the case of the creditor clubs, the participation of relevant international institutions, including UNCTAD and the regional banks concerned, would be essential.

61. Agreement on appropriate institutional machinery would make a significant contribution towards fulfilling the intent of Board resolution 165 (S-IX) and would serve to strengthen the present arrangements for international financial co-operation in an area of increasing importance.

CHAPTER V

Establishment of an export credit guarantee facility

62. In the process of industrialization an increasing number of developing countries have acquired the capacity to export manufactures, including capital goods.[23] In promoting their exports they are obliged to meet the requirements of international competition which, *inter alia,* involves the provision of credit on terms comparable to those offered by their principal competitors. However, the provision of export credit by developing countries, which has been growing rapidly, poses certain problems, particularly when it is medium-term or long-term credit. One of these problems is that the foreign-exchange receipts from exports are deferred. This is particularly serious when goods or services sold on medium-term or even long-term credit embody imported inputs paid for in cash or financed on a short-term basis. Considerable benefits would accrue to developing-country exporters of manufactured goods if they could reduce the cost of the postponement of receipts of foreign exchange through appropriate financing. One approach in this context would be to enable them to discount in the capital markets the promissory notes, bills, or other paper representing a payment obligation which they hold so that it would no longer be necessary for them to wait for their receipts until these instruments matured.

63. Developing countries seeking to discount such paper in international capital markets, however, are often unable to obtain a reasonable price and on occasion the paper

[23] See "An export credit guarantee facility—Part I, Main policy issues: report by the UNCTAD secretariat" (TD/B/739 (Part I)).

cannot be discounted at all. This phenomenon reflects international capital markets' perception of the credit-worthiness of exporting as well as importing developing countries.

64. Some possible consequences of this are worthy of note. Thus, a developing country which produces a commodity at a competitive price may find it difficult to export the commodity, principally because it is unable to offer the same medium-term or long-term credit facilities as its competitors. This may have a damaging effect on trade between developing countries. Thus, if one developing country preferred both the specifications and the price of a manufactured product, say capital equipment, available in another developing country, it still might choose to purchase from a developed country purely because of the superior credit terms which the latter was able to offer.

65. The purpose of the export guarantee scheme mentioned here is to enable a developing country with the capacity to export capital equipment to do so without undue difficulty. It is proposed that an institution, the export credit guarantee facility, be established with the support of the World Bank Group and the regional development banks, to guarantee export paper presented to it by eligible exporting developing countries. The paper so endorsed would be returned to the exporting countries, which would then be free to discount it in the international capital markets.[24]

66. After considering this issue at the second part of its eighth session, the Committee on Invisibles and Financing related to Trade adopted resolution 15 (VIII), in which it requested the Secretary-General of UNCTAD to consult with member States and appropriate financial institutions concerning the detailed operational features of an export credit guarantee facility, and recommended that the Board at its tenth special session convene a meeting of the Committee at the technical level to consider the submission of the secretariat and report its findings to the Conference at its fifth session.[25] In the light of the extensive technical analysis that has been undertaken by the secretariat on the subject so far and recent consultations that have been carried out pursuant to resolution 15 (VIII), the Board at its tenth special session, or the Conference at its fifth session, should consider endorsing the principle of the establishment of an export credit guarantee facility and of convening a United Nations conference at an early date to work out details of the scheme.

[24] For a discussion on the nature of the guarantee, see document TD/B/739.

[25] See *Official Records of the Trade and Development Board, Tenth Special Session, Supplement No. 3* (TD/B/733), annex I.

DOCUMENT TD/234/ADD.1

Review of measures taken in pursuance of Trade and Development Board resolution 165 (S-IX)

Note by the UNCTAD secretariat

[*Original: English*]
[*15 May 1979*]

1. The Trade and Development Board, at the third (ministerial) part of its ninth special session in March 1978, considered the debt and development problems of developing countries. In his introductory statement to the Board, the Secretary-General of UNCTAD noted that the most urgent issue concerning debt problems of developing countries was that of taking international measures in favour of the least developed, developing land-locked and developing island countries and other most seriously affected countries. In this connexion, he suggested that the Board might wish to consider reaching an agreement on the basis of which each developed donor country would take the necessary measures to increase the grant element of outstanding official debt owed to it by the above-mentioned group of countries to a level consistent with current norms on official development assistance (ODA).[1] Within this over-all objective the Secretary-General noted that the conversion of the outstanding loans of the least developed countries into grants would seem appropriate.

2. The Board noted with interest the suggestions made by the Secretary-General of UNCTAD with respect to an adjustment in the terms of past bilateral ODA in order to bring them into line with currently prevailing softer terms. In paragraph 4 of its resolution 165 (S-IX) the Board stated that developed donor countries would seek to adopt measures for such an adjustment of terms of past bilateral official development assistance, or other equivalent measures, as a means of improving the net flows of official development assistance in order to enhance the development efforts of those developing countries in the light of internationally agreed objectives and conclusions on aid.

3. The resolution also called for a review of the measures taken in pursuance of its provisions by the fifth session of the Conference. In order to prepare for this review, the Secretary-General of UNCTAD addressed a note on 16 February 1979 to developed States members of UNCTAD requesting information on the measures being taken.[2]

4. Owing to the fact that most of the replies were received only in late April, it has not been possible for the secretariat to consult with individual Governments on some points which are not clear or on which relevant information is not provided. In particular, the exact figures for total ODA debt outstanding with respect to the least developed and other most seriously affected countries owed to each developed donor country have not been made available. Moreover, in many instances, the average grant element on outstanding ODA debt before and after retroactive adjustment of terms has not been provided. In the absence of detailed information, it has not been possible to examine the full impact of the measures taken. Perhaps member States may wish to provide the required information during the session of the Conference. What follows is an approximate and tentative analysis of the information provided so far.

5. Most developed market-economy countries[3] have taken, or announced their intention to take, various types of actions in pursuance of Board resolution 165 (S-IX). These include cancellation of the ODA debt, waiving of interest payments and the provision of new finance, on highly concessional terms or on a grant basis, equivalent to the future debt service due. In its review of the measures taken in pursuance of resolution 165 (S-IX), the Conference may wish to bear in mind three important issues:

(*a*) The relationship between the debt on which measures have been taken by each developed donor country and the total outstanding ODA debt owed to it by the poorer developing countries, in particular, the least developed and most seriously affected countries;

(*b*) The coverage with respect to beneficiary countries–i.e. whether all the countries in the relevant category have been included within the scope of these actions, or the extent to which some developing countries or groups of developing countries have been excluded by some developed donor countries;

(*c*) The nature of the measures taken: in particular, whether the actions are in the form of retroactive adjustment of terms or whether they are equivalent measures; in the latter case whether they are fully "equivalent"–in particular, whether the actions relate to the whole future repayment stream of the debts in question, or whether they are limited to specified years in the future.

6. As was noted above, it has not proved possible to obtain data on outstanding ODA debt owed to each developed donor country by the groups of developing countries referred to by the Secretary-General of UNCTAD in the suggestions he made in his introductory statement to the Board. However, according to figures published by OECD, however, at the end of 1977 the total ODA debt

[1] Board resolution 150 (XVI) recommends a grant element of 90 per cent for ODA disbursements to developing countries. In the case of least developed countries, it has been agreed that ODA should be essentially on a grant basis. In 1976 the grant element of ODA from DAC countries was 89.3 per cent.

[2] The information received was circulated in documents TD/234/Add.2 and 3 (mimeographed).

[3] Australia, Iceland and Norway have traditionally given their ODA in grant form and have little ODA debt outstanding.

TABLE 1

Outstanding official bilateral debt and nominal value of measures taken by DAC member countries

(Millions of dollars)

Developed country[a]	*Outstanding debt on account of official bilateral loans from DAC countries to least developed and other most seriously affected countries*	*Nominal value of measures taken by DAC member countries*[b] *in pursuance of Trade and Development Board resolution 165 (S-IX)*	
		Total	of which: *equivalent measures*
Australia	14.5[c]	–	
Austria	29.8[c]	4.4	
Belgium	74.9[c]	14.1	11.9
Canada	1 158[c]	292.4	
Denmark	187.3[c]	90	
Finland	41[d]	41	
France	1 468[e]	123	
Germany, Fed. Rep. of	4 359[e]	1 805[b]	
Italy	305.3[c]	22.7	
Japan	3 990[f]	1 181	1 181
Netherlands	412.4[c]	133	
New Zealand	3.6[d]	3.6	
Sweden	309.2[c]	247	
Switzerland	77.1[c]	69	
United Kingdom	1 612[g]	1 612	1 027
United States of America	8 934[e]	19	19

[a] Norway and Iceland have no outstanding ODA debt. Luxembourg has only one loan outstanding.

[b] Maximum amount of retroactive terms adjustment measures for least developed countries.

[c] Based on IBRD estimates at end 1975.

[d] Estimate provided by donor Government.

[e] Based on IBRD estimates at end 1976.

[f] Estimate was provided by the Government of Japan and represents ODA debt outstanding at 31 March 1978.

[g] Estimate was provided by the Government of the United Kingdom and represents ODA debt outstanding at end 1978.

TABLE 2

Measures taken in pursuance of Trade and Development Board resolution 165 (S-IX): coverage of beneficiary countries

Developed country	*Retroactive terms adjustment or equivalent measures in favour of least developed and other most seriously affected countries*	*Retroactive terms adjustment measures in favour of least developed countries only*
Austria	X	
Belgium	X	
Canada		X
Denmark		X
Finland	X	
France		X
Germany, Fed. Rep. of		X
Italy	X	
Japan	X	
Netherlands		X
New Zealand	X[a]	
Sweden	X	
Switzerland	X	
United Kingdom	X	
United States of America		X[b]

[a] Includes measures in favour of three poorer developing countries, namely Cook Islands, Fiji and Samoa.

[b] The United States Government is seeking authorization from Congress to permit 16 of the least developed countries to pay debt servicing due in fiscal year 1980 into local currency accounts for use for development activities in those countries.

TABLE 3

Type of measures proposed to be taken by developed donor countries in pursuance of Trade and Development Board resolution 165 (S-IX)

Developed country	*Retroactive terms adjustment conversion into grants*	*Equivalent action*	*Other*
Austria	X		
Belgium	X[a]		
Canada	X		
Denmark	X		
Finland	X		
France	X		
Germany, Federal Republic of	X		
Italy			X[b]
Japan		X	
Netherlands	X		
New Zealand	X		
Norway	X		
Sweden	X		
Switzerland	X		
United Kingdom	X[c]		
United States of America			X[d]

[a] Belgium is cancelling the interest on the ODA debt of three countries and refinancing part of the debt servicing of two other countries.

[b] Debt servicing due in 1979-1981 to be cancelled.

[c] Local cost financing in the case of India.

[d] The United States Government is seeking authorization from Congress to permit 16 of the least developed countries to pay principal and interest due in fiscal year 1980 into local currency accounts to be used for development activities in those countries.

owed by the least developed countries to DAC countries was $3.2 billion and the total ODA debt owed by all the most seriously affected countries (including all the least developed countries) to DAC countries was $18 billion. This gives an idea of the magnitude of the debt relevant in the context of section A of resolution 165 (S-IX).

7. In order to obtain an approximate indication of the outstanding ODA debt owed to each developed country, table 1 provides estimates derived from the World Bank Debt Reporting System on outstanding bilateral disbursed government loans from the DAC countries to the least developed and other most seriously affected countries.

8. The second column of table 1 summarizes the quantitative information provided to the secretariat regarding the measures being taken. As can be seen, there is great variation between the quantum of outstanding debt and the scale of the measures taken by individual developed countries.

9. Another issue of importance is the question of coverage of beneficiary countries. Table 2 gives a summary in this regard. It is clear that this varies very widely. A number of countries have extended the scope of their measures to all the countries within the category of poorer developing countries. For example, several have extended the benefit of their actions to the least developed and most seriously affected countries which owe them ODA debt, or have used a conventional per capita indicator for low-income developing countries and extended the scope of their measures to the countries qualifying by that standard. Some others, however, have restricted the benefit of their measures to a narrower group of countries—in some cases only to the least developed countries owing them ODA debt, and in one or two cases, the measures undertaken are in favour of only a subgroup within the group of least developed countries.

10. The third issue of importance is the type of measures being taken. A summary is provided in table 3. Many developed donor countries in their retroactive terms adjustment have converted to a grant basis the outstanding ODA debt owed to them by the beneficiary countries. Some others have taken equivalent measures and have pledged to refinance on grant or highly concessional terms the entire future debt-servicing stream arising from the outstanding ODA debt. One or two, however, have taken actions which are somewhat more limited. The United States of America, for example, is at present seeking authorization to permit 16 of the least developed countries to pay the debt servicing owed to it in fiscal year 1980 into local currency accounts.

11. Tables 1, 2 and 3 (and the more detailed information provided in the replies of Governments)[4] make it clear that there is very considerable variation among different DAC countries on the coverage as regards the beneficiary countries and the proportion of outstanding ODA debt of the poorer developing countries on which retroactive adjustment measures are being taken in implementation of resolution 165 (S-IX). Moreover, in one case the type of measures being taken, at least at present, appears to be limited in effect to a single year.

12. In the light of the above considerations, the Conference may wish to consider what follow-up action, if any, might be appropriate.

[4] See TD/234/Add.2 and 3.

DOCUMENT TD/235

Towards an effective system of international financial co-operation

Report by the UNCTAD secretariat

[Original: English]
[23 April 1979]

CONTENTS

TABLE

Introduction

1. International financial co-operation may be said to have two broad functions. The first and foremost of these is the continuous and sustained net transfer of resources to developing countries. This transfer has as its principal goal the redistribution over the long term of savings and investment in the international economy, in order to raise the rate of growth of developing countries above that which they would otherwise attain.

2. The second function of international financial co-operation is to provide adequate financing, on appropriate terms and conditions, to offset balance-of-payments deficits encountered by developing countries and in particular those arising from conditions in the world economy at large or otherwise beyond the control of developing countries. The purpose of such balance-of-payments support is to insulate the development programmes of developing countries from adverse world economic conditions, thereby furthering the more fundamental objective of raising their growth rates. It can also improve the adjustment process in the world economy and share out the cost of adjustment among countries more equitably.

3. The ultimate sources of financial flows entering the network of the system of international financial co-operation are the government budgets, private markets and the exchange of national currencies (purchases and repurchases of currencies) through the intermediation of IMF.[1] Monies raised through government budgets are disbursed through bilateral aid agencies, or multilateral organizations, on concessional terms, often in the form of grants. The volume of resources which is generated from this source depends entirely upon decisions of the assistance-giving Governments. Those Governments also play a key role—either directly or indirectly, through their representatives in the executive bodies of multilateral agencies—in determining the distribution of the financial resources among recipient countries as well as the specific activities in developing countries which are eligible for such finance.

4. In the case of private capital, the volume and the terms of financial flows to developing countries are determined by a somewhat more complex mechanism. The supply of capital and the associated terms for individual countries are a function of conditions affecting world liquidity and of the countries' indebtedness, as well as of market perceptions regarding current and prospective management of the recipient economies. On the other hand, the demand for private foreign capital depends, among other things, upon the terms on which funds can be made available, the availability of alternative sources of foreign exchange receipts, in particular export earnings and concessional finance, and the willingness of the borrowing country to adjust its domestic policies so as to conform to the market concept of "sound management".

5. In general, these two sources of financing—i.e. government budgets and private markets—have been kept separate. Partial exceptions to this rule are officially guaranteed export credits and the regular operations of the multilateral lending institutions. In both cases the ultimate source of finance is private markets, but the operations are underpinned by government commitments or guarantees that constitute a potential, albeit theoretical, claim on budgetary resources. In neither case, however, are the resulting flows to developing countries on significantly concessional terms.

[1] Private transfers on account of emigrants' remittances and voluntary contributions of private organizations are also components of this network.

6. Balance-of-payments support can be obtained from IMF in amounts indicated by each country's quota. Access to these resources is subject to terms and conditions that are set out in the Articles of Agreement and the By-laws of IMF.

7. There exists no mechanism to ensure that these heterogeneous sources of finance reinforce each other and that, when taken together, they amount to a consistent and comprehensive system of international financial co-operation designed to promote the development of developing countries on the basis of internationally agreed norms. An important step in this direction was made when the Second United Nations Development Decade was launched.[2] The International Development Strategy did provide for a link between the objectives for the development of developing countries, on the one hand, and the volume and composition of external resources required, on the other hand. However, it did not establish mechanisms that could ensure a broad consistency between development targets and external financing. The meeting of financing targets was entrusted to individual developed countries and to market forces. Nor did the Strategy provide for an effective review mechanism to assess the impact of possible deviations from the prescribed norms upon the process of development in the world economy and in particular the developing countries.

8. Chapter I of this report reviews past experience with international financial co-operation in the light of the development objectives set out in the Strategy. Chapter II examines measures and mechanisms that may be employed towards establishing a system of international financial co-operation that would be more closely linked to the needs of developing countries and to the related objective of restructuring world production and trade.

CHAPTER I

International financial co-operation in the 1970s

9. The experience of developing countries in the field of financing during the current decade has been extensively reviewed.[3] Suffice it here to highlight the salient features of this experience.

10. The 6 per cent average annual rate of growth of real GDP set by the Strategy as a minimum target for developing countries during the 1970s was predicated, among other things, on the assumption that their import surplus would be covered by resource transfers from developed countries. In this context, it was envisaged that total net flows of financial resources from developed countries, amounting to 1 per cent of GNP at market prices, would be required and that of this total at least 70 per cent should be in the form of official development assistance (ODA).

11. The target of 0.7 per cent for ODA was generally believed to be the corner-stone of the system of international financial co-operation. In the first instance, it was thought that excessive reliance on private financing was likely to lead to the neglect of certain social and economic sectors which had an important role to play in a balanced strategy for development. Moreover, low-income countries, which usually have only a moderate export potential in the medium run, and whose socio-economic programmes involve investments with long gestation periods, were not expected to be significant recipients of private finance. At the same time, it was considered that the blending of concessional financing and private flows envisaged in the Strategy was likely to yield average terms which would be closer to the debt-servicing capacity of developing countries. Finally, ODA, being entirely under governmental control, was expected to be more amenable to qualitative and quantitative improvements in the light of changing world economic conditions and thus it was thought to be a genuine element of intergovernmental negotiations in international forums.

12. In the event, the 1970s have not followed the scenario envisaged in the Strategy. In the early years of the decade the international economy underwent a series of disruptions in the form of large fluctuations in both production and prices, which have subsequently given way to a period characterized by levels of unemployment and rates of inflation much higher than those foreseen when the Strategy was adopted. In the face of prolonged and severe recession in developed market economy countries, coupled with strong inflationary pressures in the international economy, many developing countries experienced strong pressure on their balance-of-payments.[4] As may be seen from the table, the current-account deficits of non-oil-exporting developing countries have increased dramatically in recent years.

13. The deficits on current account that have been observed do not, of course, give a full measure of the cost of adjustment that recession and inflation in the international economy have placed upon developing countries. The UNCTAD secretariat estimates, for example, that if imports in constant prices were to have grown at the rate indicated in the Strategy (about 7 per cent per annum) rather than at 5.0 per cent per annum—the rate actually obtained on the average, during the period 1971-1977—the current-account deficit of non-oil-exporting developing countries in 1977 would have been about $20 billion higher. This difference between *ex ante* and realized current account deficits gives a broad order of magnitude of the adjustment that has had to be carried out at the expense of the development process.

14. A major factor accounting for the shortfall of imports from the required levels relates to the slow growth of the purchasing power of exports of developing countries, which increased at an average annual rate of only 3.7 per cent during the period 1971-1977. This outcome reflects partly the sluggish demand for exports owing to recession

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

[3] See, in particular, "Transfer of resources in real terms to developing countries: note by the Secretariat" (A/AC.191/7 and Corr.1), containing a report prepared by the secretariat of UNCTAD for submission to the first session of the Committee of the Whole established under General Assembly Resolution 32/174; and "International financial co-operation for development—Capital flows to developing countries: report by the UNCTAD secretariat" (TD/B/C.3/158).

[4] Excluding oil-exporting developing countries which, as a group, experienced current-account surpluses and have themselves contributed to resource transfers to other developing countries.

Financing of the current-account deficits of non-oil-exporting developing countries and territories, 1971-1977

(Millions of dollars)

	1971	*1972*	*1973*	*1974*	*1975*	*1976*	*1977*
I. Current-account deficit (balance on goods, services and private transfers)	−14 344	−11 168	−12 921	−33 408	−41 917	−28 404	−25 904
II. Long-term financing (net)	13 298	16 160	23 261	32 001	38 599	41 268	48 769
of which:							
Official bilateral on ODA terms	3 907	4 149	4 970	7 895	10 342	9 439	9 073
DAC member countries	3 907	4 149	3 955	5 004	5 760	5 256	5 499
Oil-exporting developing countries	–	–	1 015	2 891	4 582	4 183	3 574
Other official bilateral	602	747	1 704	1 759	2 744	2 356	2 133
DAC member countries	602	747	1 625	1 158	1 322	1 353	1 353
Oil-exporting developing countries	–	–	79	601	1 422	1 003	780
Private flows from DAC member countries	5 680	8 150	13 140	17 738	19 756	23 178	29 869
Private overseas direct investment	3 099	3 639	5 831	7 554	8 178	7 498	8 426
Commercial bank lending	553	1 990	4 222	5 668	6 026	7 699	8 436
Private export credits	1 585	1 128	606	1 465	1 543	3 208	4 790
Other[a]	443	1 393	2 481	3 051	3 469	3 773	8 217
Multilateral institutions[b]	1 712	1 518	1 807	3 298	4 597	5 116	6 850
On ODA terms	1 030	853	1 078	2 008	2 713	3 130	4 341
Other	682	665	729	1 290	1 884	1 986	2 509
Socialist countries of Eastern Europe[c]	1 397	1 596	1 640	1 311	1 160	1 179	844
III. Payments financing	−741	−5 443	−7 783	−299	2 580	−7 056	−12 292
Use of IMF credit	36	295	174	1 323	1 638	2 106	−78
Changes in official reserves (— equals increase)	−777	−5 738	−7 957	−1 602	842	−9 262	−12 214
IV. Short-term capital, unrecorded flows and errors and omissions	+1 787	+451	−2 557		738	−5 808	−10 573

Sources: UNCTAD secretariat estimates based on OECD, *Development Co-operation* (Paris), various issues; IMF, *International Financial Statistics* (Washington, D.C.), various issues, and information made available by the World Bank and the DAC secretariat.

Note: Flows to southern European recipients and flows to members of OPEC are excluded. Since the table has been arranged to show how the current-account deficit has been financed, technical assistance grants have been excluded from the figures for bilateral ODA, since it is believed that the import of services financed by these transactions is rarely recorded in the current account.

[a] Includes portfolio investments.

[b] Disbursements by multilateral institutions to developing countries are measured net of subscriptions, contributions, participations and repayments by non-oil-exporting developing countries. The figures include disbursements by multilateral institutions financed by oil-exporting developing countries.

[c] Includes flows to southern Europe.

in the international economy and partly the deterioration in the terms of trade. In addition, the rising wave of protectionist measures in many developed market-economy countries prevented developing countries from realizing their full export potential. This export experience compares unfavourably with an average annual rate of growth of the purchasing power of exports of 5.7 per cent realized during the decade of the 1960s and with the norm implied by the Strategy of an average annual rate of 7 per cent for the 1970s.

15. An effective system of international financial co-operation should have ensured that the shortfall in the purchasing power of exports would be offset by corresponding flows on appropriate terms and conditions. In spite of further liberalization of the IMF compensatory financing facility and the establishment of a temporary "oil facility", drawings by developing countries from IMF have amounted to a small fraction of the shortfalls experienced, and in fact in 1977 repurchases by developing countries exceeded their drawings. In this connexion, it should be stressed that developing countries have made little use of Fund resources to which they are entitled but which involve vigorous conditionality. Developing countries consider that the policy measures expected of them in the context of stand-by arrangements are not always consistent with their socio-economic objectives and the requirement that balance-of-payments adjustment should not disrupt the process of development.[5]

16. With regard to ODA, developments have been disappointing. For the DAC member countries as a group, the ratio of ODA to GNP fell from 0.34 per cent in 1971 to 0.30 per cent in 1977.[6] As can be seen from the table, bilateral ODA of DAC member countries as a proportion of

[5] For a discussion of these issues, see document TD/233, reproduced in the present volume, and "Compensatory financing for export fluctuations: note by the UNCTAD secretariat" (TD/B/C.3/152/Rev.1 and Corr.1 and 2).

[6] For an account of developments in this area, see document TD/234, reproduced in the present volume.

net long-term financing fell from about 29 per cent in 1971 to little more than 11 per cent in 1977. The share of the credits on soft terms from multilateral development institutions rose slightly, from a little less than 8 per cent to nearly 9 per cent. The relative decline of ODA from traditional sources has been partly offset by the remarkable expansion of concessional assistance from members of OPEC to other developing countries—a source of finance that was not even envisaged at the time the Strategy was adopted. In 1977, official bilateral assistance on ODA terms from members of OPEC to other developing countries amounted to more than 7 per cent of net long-term financing. These figures imply that in total the contribution of ODA to net long-term financing fell from 37 per cent in 1971 to 28 per cent in 1977.

17. Estimates of the disbursements of the socialist countries of Eastern Europe indicate that their share in net long-term financing fell from more than 10 per cent in 1971 to less than 2 per cent in 1977.

18. While the relative contribution of non-concessional lending of multilateral development institutions remained unchanged between 1971 and 1977 (around 5 per cent), the share of other sources of non-concessional finance increased substantially. Of particular interest is the impressive expansion of commercial bank lending. The share of this source of finance increased from about 4 per cent in 1971 to more than 17 per cent in 1977.

19. The developments sketched above cast serious doubt on the viability of the system of international financial co-operation as envisaged by the Strategy. The major developments that have tended to undermine the established norms in the area of international financial co-operation may be summarized as follows:

(*a*) The total net flow of resources to developing countries fell considerably short of the requirement to underpin a rate of growth of imports in real terms that the Strategy considered necessary for the attainment of the development objectives;

(*b*) While the exceptionally large deficits on current account experienced by many developing countries have been mainly caused by recession and protectionist measures in developed market-economy countries and deterioration in the terms of trade, the role of multilateral institutions in providing balance-of-payments support has been limited. In spite of several measures that have been taken, including liberalization of the IMF compensatory financing facility and the establishment of a temporary oil facility, the use of Fund credit has covered only a fraction of the shortfall in the purchasing power of exports of developing countries. A factor that has contributed to the limited use of balance-of-payments support facilities appears to relate to the conditionality attached to the upper credit tranches, which is generally not considered by developing countries to be always consistent with the requirement that the adjustment process should take fully into account their longer-term development objectives;

(*c*) Developed countries, as a group, not only failed to meet the 0.7 per cent ODA target but allowed the ratio of ODA to GNP to fall to the lowest level ever observed. Thus, on present policies, the ODA target seems to be largely inoperative in respect of many developed countries, including some of the major donors. Viewing this outcome in the light of the diverse performance of individual countries, there appears to be no clear evidence that performance in the area of development assistance might have been affected by adverse economic conditions. In fact, countries that have enjoyed the lowest rates of inflation and sizeable surpluses on current account are among those which have fallen significantly below the average performance in respect of official development assistance. The crucial factor appears to be that in the complex process of annual budgetary appropriations neither the legislative bodies nor the public have considered the provision of development assistance to be an indispensable component of their foreign economic policy;

(*d*) Private capital flows, and especially bank lending, increased rapidly. These flows have enabled many developing countries to finance shortfalls in the purchasing power of their exports and to finance development projects. However, they carry relatively high interest rates and short maturities and have been provided in the expectation that the slump in export earnings would be short-lived and that protectionist measures in developed countries would not increase;

(*e*) As a result of the lagging performance of ODA and the rapid increase in private flows, the composition of total net flows to developing countries is almost exactly in reverse proportion to that envisaged in the Strategy. This has had a number of adverse consequences. First, the average terms of total flows of developing countries have hardened considerably. In this connexion, of particular concern is the worsened maturity structure of the outstanding debt, a good part of which falls due for repayment in the next few years. Secondly, the distribution of capital flows has been skewed, with lower-income developing countries obtaining a disproportionately small share. As a result, these countries, and especially the least developed countries, have been unable to finance even a minimum level of development imports. Thirdly, increased reliance upon commercial sources of finance has tended to limit the range of development options open to borrowing countries, which are required to fashion their policies in a manner consistent with market perceptions regarding credit-worthiness. In view of the relatively short-term structure of the external debt, it is possible that the pendulum has shifted away from long-term investment, which is required for a broadly-based and self-sustained development process. Fourthly, increased exposure to private capital markets has required developing countries to maintain a higher level of reserves than would otherwise have been needed;

(*f*) Non-concessional loans from multilateral development institutions still account for a relatively small part of total net long-term financing. In this connexion, concern has been expressed at the increasing gap between commitments and disbursements, as well as at the minimal contribution of multilateral agencies to programme assistance.

CHAPTER II

Principal elements of an effective system of international financial co-operation

20. The analysis presented in the preceding chapter suggests that a critical turning point has been reached in

international financial co-operation for development. To be sure, if the measures proposed under agenda item 12 (*a*)–(*d*) are adopted, they will greatly contribute to reversing the present unfavourable trends and create conditions for placing international financial co-operation on a sounder basis. Yet, it must be admitted that the problems facing the establishment of a genuine system of international financial co-operation are of a more fundamental nature, and that these problems must be dealt with if the new international development strategy for the 1980s is to avoid the failures of the present Strategy.

21. The fifth session of the Conference can make a useful contribution in this difficult and complex area if it focuses on the main features of the system that needs to be put in place. The considerations that follow do not constitute a set of definitive proposals or a blueprint of a new system; they are presented purely for the purpose of providing a basis for discussion and exchange of views that may result in launching a process towards establishing an effective system of international financial co-operation.

(a) *The missing kernel of international financial co-operation*

22. Unlike the international monetary system and the world trading system, capital movements do not operate under internationally established "rules of the game".[7] Capital flows consist of a variety of heterogeneous elements, each seeking to meet its own distinct objectives. Profit motives give rise to short-term capital movements and long-term portfolio investments; redeployment of resources on a world-wide scale in the context of profit maximization by transnational corporations, as well as considerations of market penetration, induce capital flows in the form of direct investment; competition to capture export markets is accompanied by the granting of export credits, often subsidized by Governments; official development assistance is to be provided with the welfare of the recipient countries in mind, although it has often been an instrument of foreign policy of the donor country; multilateral flows are provided, under rules generally reflecting the views of the creditors, for the purpose of either assisting in the adjustment process or promoting investment and development in developing countries.

23. It is not reasonable to expect that all these heterogeneous components of total financial transfer will always be in harmony with each other[8] and that, when taken together, they will be fully consistent with the objective of promoting world trade and development, and in particular the development of developing countries, through fundamental changes in the structure of the world economy. If the experience of the 1970s can serve as a guide, it can be said with a great measure of certainty that there is no assurance that the forces determining the flow of financial resources can fashion a financial network that is both consistent with internationally agreed development objectives and stable in the long run.

24. It would be futile to attempt to force such consistency by trying to alter the fundamental character of the forces that give rise to different kinds of capital flows. These flows must be openly and frankly admitted to be what they really are: essentially creditor-centred operations. They cannot be made to perform functions fundamentally different from those actually intended by the creditors. In fact, the conflicts that have characterized the international deliberations in the area of finance are due in no small measure to the fact that these flows were treated as if they were components of an internationally managed system rather than of an essentially creditor-centred framework.

25. This suggests that perhaps a more promising approach might be for the international community to acknowledge the limits of transforming the existing mechanisms of financial transfers into principal elements of a genuine system of international financial co-operation and to focus attention on the elaboration of new elements that would form the kernel of an effective system.

26. The relationship which is envisaged between the existing mechanisms and the kernel of the system is a complementary one. The latter would play a catalytic role by undertaking functions that the existing mechanisms cannot perform or else perform inadequately. These complementary functions would ensure that the existing components of financial flows would be linked together in a consistent system that effectively meets the internationally agreed objectives of development.

(b) *The need for a global overview*

27. The first step towards the establishment of a system of international financial co-operation would be for an international forum to be the focal point of deliberations regarding the functioning of the financial system.[9] The purpose of these deliberations would be twofold: first, to carry out regular reviews of developments in the financing area with a view to assessing the linkages among the various financial components, their impact on the level and

[7] For a discussion of this point and the problems that have arisen in the management of the international economy, see document TD/225, reproduced in the present volume.

[8] In fact, conflicts of interest often arise within individual components owing to differences in the policies and objectives pursued by creditor countries. In order to co-ordinate positions, developed creditor countries have, in certain instances, set up intergovernmental machinery, notably in the areas of development assistance, export credits and debt reorganization.

[9] Although certain elements of financial flows are the subject of review by specialized bodies, no global review of the scope indicated here has ever been systematically carried out. In this connexion, it should be pointed out that the terms of reference of the Committee on Invisibles and Financing related to Trade (Trade and Development Board decision 10 (I)) include the following:

"4. To consider the adequacy of rates of growth achieved by the developing countries, and in this connexion to keep under review the mobilization of domestic resources by developing countries and their import capacity resulting from the combined total of export proceeds, invisible earnings and the capital inflow available to them, taking into account, *inter alia*, the evolution of prices.

"5. To consider studies and proposals for increasing the net flow of financial resources to developing countries.

"6. To consider means for (*a*) facilitating the co-ordination of and increasing the effectiveness of bilateral and multilateral programmes of development assistance to developing countries, taking into account efforts by the developing countries to mobilize effectively their domestic resources, and (*b*) improving the terms of such assistance; having in mind the differing economic situations and stages of development of developing countries."

structure of world trade and production and their consistency with the internationally agreed objectives for development. Second, to recommend international measures designed to ensure that the components of the financial system, when taken together, function in a manner that is consistent with the requirements of internationally agreed objectives regarding world trade and development.

(c) *The need for internationally managed resources*

28. Recommendations for policy measures in the area of finance that are arrived at after careful in-depth examination of the problems involved would no doubt have an impact on the operations of the existing mechanisms of resource transfers. However, given the limits inherent in the nature of these mechanisms, there is no assurance that the recommendations would be implemented. In fact, experience so far clearly indicates that there is a large gap between United Nations recommendations and actual performance.

29. In order to ensure that the recommendations are indeed implemented, it is necessary for the international community to have at its command resources that can be mobilized to fill the gap that may arise from the operations of the existing mechanisms. This can be achieved through the establishment of an international fund for development and economic co-operation which would be democratically managed and would be endowed with the necessary resources, contributed by all member States.[10]

30. The contributions of member States would be in the form of annual cash payments. The size of these contributions and the scale of assessment would be determined by an international covenant. In the case of low-income countries, especially the least developed countries, very modest rates would apply. The fund could also be designated as beneficiary of resources arising in the international public domain, such as savings accruing from the creation of special drawing rights, profits realized from sales of monetary gold, and revenues from exploiting the mineral resources of the sea-bed.

31. Governments would also subscribe to callable capital of the fund and could purchase non-voting shares that may be issued by the fund.

(d) *Uses of resources*

32. As noted above, the exact functions of the fund would have to be determined in the light of gaps that arise in the operations of the existing mechanisms. Nevertheless, experience so far points to some broad areas that, for a variety of reasons, are not covered adequately by existing arrangements.

(i) *Grants to supplement public savings*

33. Governments in countries with a low per capita income, and especially least developed countries, experience a chronic shortage of funds to finance their development programmes. Development assistance, mostly in the form of grants or highly concessional loans, has supplemented domestic resources, but its level has been generally inadequate and invariably subject to uncertainty. The fund could make a significant contribution by disbursing annually untied grants to developing countries on the basis of a formula to be agreed by the same international covenant that would establish the fund. Countries with a low per capita incomes, and especially the least developed countries, would be expected to receive grants from this operation that would be a multiple of their annual contributions to the fund.

(ii) *Offsetting shortfalls in import capacities of developing countries*

34. It is now recognized that developing countries are subject to a relatively high degree of fluctuation in their foreign exchange receipts, and hence in their import capacity, and that these fluctuations are a disruptive influence on their development. Conceptually, shortfalls are of two kinds:[11] (*a*) temporary, self-reversing shortfalls below the trend in export earnings warranted by full (or nearly full) utilization of capacity in the world economy and (*b*) shortfalls induced by an abnormally large slack in capacity utilization in the world economy.

35. Shortfalls of the first kind are counterbalanced by "excesses" since there is, by definition, symmetry between downturns and upturns in world demand around the quasi-full employment level of output. Shortfalls of this kind require, in essence, medium-term credits, pending the recovery of export earnings, at which time the credit can be repaid. The need for such credits has been recognized and multilateral financing arrangements have been available to deal with this problem.[12]

36. Shortfalls of the second kind, on the other hand, are by definition the result of maladjustment in developed countries which impose a burden on the developing countries. To require developing countries to finance these kinds of shortfalls through medium-term credits on commercial terms implies that they should bear the cost of maladjustment in the developed countries, because abnormally large downswings in capacity utilization are not counterbalanced by comparable upswings: while there is no "floor" under capacity utilization, there is a "ceiling" above it. As a result, shortfalls of this kind will never be recouped. The optimal response to such shortfalls would be the provision of offsetting grants (or as a second-best policy, long-term concessional loans), pending adjustment in the developed countries and the restoration of full capacity utilization conditions in the world economy.

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[10] This fund could have its own staff resources to carry out its mandate. Alternatively, the operations of the fund could be entrusted to one or several of the existing multilateral mechanisms. The advantages and disadvantages of each alternative will have to be carefully examined. In either case, the fund would have to be considered as the operational arm of the international forum entrusted with the overview.

[11] Persistent shortfalls (that is, depressed trend) may occur under conditions of full capacity utilization of the world economy due to permanent shifts in demand or changes in the cost structure. These shortfalls require "real adjustment" in the economies experiencing them and medium-term balance-of-payments financing to provide a breathing space in the meantime.

[12] For a discussion of this issue, see TD/B/C.3/152/Rev.1 and Corr.1 and 2.

37. At present, there are no international mechanisms to deal with shortfalls of the second kind. A financing facility to deal with these problems would constitute a first step towards establishing counter-cyclical mechanisms. Indeed, it may be seen as analagous to national systems of unemployment insurance: these are designed to mitigate the effects of deflation on those members of society that must bear the brunt of economic forces beyond their control, while at the same time maintaining purchasing power in the economy as a whole, thereby dampening deflationary forces.

(iii) *Financing of investment projects required for the attainment of the goals of the International Development Strategy*

38. The development of developing countries implies structural shifts in the patterns of allocation of resources in the world economy. As new lines of production develop in developing countries, similar activities in developed countries will have to either grow at slower rates than in the past or be phased out gradually. This structural transformation, which is at the heart of the development effort, will require investments of a size and character that are not accommodated by the financing operations of the existing mechanisms.

39. The proposed fund could play a catalytic role in this area by promoting and financing national or multinational investment in developing countries that is required if the structural changes called for in an international development strategy are to be realized.

40. The fund could guarantee bonds floated by developing countries for the purpose of financing such investment projects. It could also provide interest subsidies, as appropriate, in order to bring the cost of developing countries' borrowing into line with their long-term debt-servicing capacity.

41. An idea that may be explored in this context is whether exports resulting from investment projects financed by the fund should not enjoy free access to markets of all participating member States and, conversely, whether participating member States should not have preferential access to those products vis-à-vis countries that are not members of the fund.

(iv) *Financing related to trade*

42. A direct consequence of the development of developing countries is the rapid expansion of their exports of manufactured goods. In the competition for gaining markets for manufactures, and particularly for capital goods, however, the provision of export credits is indispensable.

43. Developing countries which are emerging as important exporters of manufactured goods are finding themselves obliged to offer competitive financing arrangements to prospective buyers. On the other hand, these countries generally operate under an acute shortage of freely usable foreign exchange and consequently find that provision of export credits has a significant cost. Although they will eventually receive both the value of the exports and the interest accruing on the loan, the latter is not likely to represent adequate compensation for the delayed receipt of export revenue since the rate of interest on export credits is less than the opportunity cost of capital to them. There are various ways in which a country exporting manufactures can avoid delays in its receipts of foreign exchange until its export credits mature. Provided that it has access to international capital markets, it can borrow the sum involved, earmarking the deferred receipts from its export credits for the repayment of the loan. Alternatively, it can discount the export paper in the capital markets. With the first of these options, there will still be a cost to the developing countries, since the rate of interest at which it borrows in international capital markets is likely to exceed the rate on export credits. It is also possible that by borrowing to offset the effects of delayed export receipts, it will worsen the terms on which it can obtain further loans from this source. With the second option, it may have difficulty in discounting the export paper at a reasonable price, particularly when neither the exporting nor the importing country is sufficiently known to the capital markets.

44. In view of these difficulties, it has been proposed that a multilateral export credit guarantee facility, open to developing countries extending export credits, should be established. While this proposal has been under active consideration in many forums, including UNCTAD, for a number of years, no action has been aken so far.[13] Thus, there appears to be at present an important gap that the establishment of the proposed fund could help fill.

45. The above list of possible areas of activity of the fund is neither definitive nor exhaustive. It is hoped, however, that the above considerations may help focus attention on the gaps and deficiencies in the existing mechanisms of resource transfer to developing countries and thus provide a useful basis for an exchange of views on the need for establishing an international fund for development to ensure that an effective system of international financial co-operation is put in place.

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[13] See document TD/234, reproduced in the present volume. For a detailed discussion of the structure of an export credit guarantee facility, see "An export credit guarantee facility. Part I, Main policy issues: report by the UNCTAD secretariat" (TD/B/739 (Part I)).

AGENDA ITEM 13*

DOCUMENTS TD/237 AND ADD.1

Technology: restructuring the legal and juridical environment. Issues under negotiation

Report by the UNCTAD secretariat

DOCUMENT TD/237

[*Original: English*]
[*29 January 1979*]

CONTENTS

Introduction

1. Item 13 of the provisional agenda for the fifth session of the United Nations Conference on Trade and Development, approved by the Trade and Development Board at its eighteenth session, contains the following four subitems:

(*a*) International code of conduct on the transfer of technology;

(*b*) The contribution of UNCTAD to economic, commercial and development aspects of the industrial property system in the context of its ongoing revision;

(*c*) Strengthening the technological capacity of the developing countries, including accelerating their technological transformation;

(*d*) Development aspects of the reverse transfer of technology.

2. The present report covers only subitems (*a*) and (*b*).

3. Each of these issues has matured to the point of decision-making with regard to major initiatives of UNCTAD in this area, which is of national and international concern. They owe their origin to Conference resolutions 39 (III), 88 (IV) and 89 (IV) and to decisions of its subsidiary organs, such as the Intergovernmental Group on Transfer of Technology, later the Committee on Transfer of Technology. A strong impetus to these initiatives was given by resolutions of the General Assembly, in particular resolution 3201 (S-VI) of 1 May

* For the agenda, see vol. I, part three, para. 6.

1974, 3362 (S-VII) of 16 September 1975 and 32/188 of 19 December 1977.

4. The code of conduct and the revision of the industrial property system have been the subject of detailed attention by the secretariat and the UNCTAD intergovernmental bodies. In a broader sense, these issues reflect the new type of negotiating role that UNCTAD has been called upon to play in recent years. In the present report, the work carried out in this area, basically by UNCTAD, since the fourth session of the Conference is reviewed, and some of the issues under negotiation are outlined.

CHAPTER I

International code of conduct on the transfer of technology

A. Background

5. The United Nations Conference on Trade and Development decided in its resolution 89 (IV) to establish an intergovernmental group of experts, open to the participation of all member countries, in order to prepare a draft international code of conduct on transfer of technology. The Intergovernmental Group of Experts held six sessions between November 1976 and July 1978.[1] In the course of its six sessions the Group prepared a draft text of the international code of conduct, to be submitted to the United Nations Conference on an International Code of Conduct on the Transfer of Technology.[2]

6. The United Nations Conference on an International Code of Conduct on the Transfer of Technology opened its deliberations in Geneva on 16 October 1978. The four-week session began negotiations on the code of conduct on the basis of the draft code prepared by the Intergovernmental Group of Experts. It also discussed the question of the legal character of the code and the related question of the institutional machinery for the implementation of the provisions of the code.

B. General structure of the code[3]

7. The text of the draft code before the United Nations Conference on an International Code of Conduct on the Transfer of Technology consists of a preamble and eight chapters, dealing with: definitions and scope of application; objectives and principles; national regulation of transfer of technology transactions; restrictive practices; guarantees/responsibilities/obligations; special treatment for developing countries and international collaboration; applicable law and settlement of disputes; and other issues.

8. The draft code of conduct states that it is universally applicable to all international transactions for the transfer of technology. It is to govern the terms of the transactions, and it therefore applies to the parties to transactions, whether they are private or public, including government agencies and international organizations. The draft code is also to apply to measures to be taken by Governments.

9. The substantive provisions of the draft code fall into two broad categories: provisions concerning the regulation of transfer of technology transactions and of the conduct of parties to them, and provisions relating to possible or desirable measures by Governments concerning transfer of technology.

10. The first category of provisions, establishing certain generally agreed and universally applicable standards, aims at (*a*) determining which practices and arrangements involving transfer of technology are to be deemed undesirable and under what conditions; (*b*) identifying and clarifying obligations as well as rights of parties to transfer of technology transactions; and (*c*) defining the extent of the freedom of the parties to choose the law and forum for the settlement of their disputes.

11. The second category of provisions, relating to possible or desirable State and inter-State action in the field of transfer of technology, falls into three main types: (*a*) measures related to the regulation of transfer of technology transactions by particular States; (*b*) measures concerning transfer of technology and related transactions that will be applied only where the acquiring country is a developing country; (*c*) measures concerning international co-operative activities of States, on a bilateral, multilateral, regional or interregional basis, to assist in transfer of technology and in the growth of the technological capabilities of developing countries.

12. These two main categories of provisions of the draft code of conduct differ from each other in significant aspects, although both are intimately related and may best be understood as complementary and, to a degree, interdependent. Provisions under the first category embody mutually agreed standards applicable to all transfer of technology transactions. Those under the second category deal with desirable or permissible action which countries may wish to take either on account of their national policies relating to the acquisition of technology or because they deem such action appropriate in order to assist developing countries, in view of the special conditions prevailing in the latter.

C. United Nations Conference on an International Code of Conduct on the Transfer of Technology

13. After the first round of negotiations on the code of conduct, the draft text shows the following achievements and shortcomings:[4]

(*a*) One entire chapter–i.e. special treatment for developing countries–is completely agreed;

(*b*) The preamble and the chapters on objectives and principles, national regulation of transfer of technology transactions, and international collaboration are close to full agreement;

[1] For the reports of the Intergovernmental Group of Experts on an International Code of Conduct on Transfer of Technology, see TD/AC.1/4, TD/AC.1/7, TD/AC.1/9, TD/AC.1/11, TD/AC.1/15 and TD/CODE TOT/1/Add.1.

[2] TD/CODE TOT/1.

[3] See also on this subject "United Nations Conference on an International Code of Conduct on the Transfer of Technology: background note by the UNCTAD secretariat" (TD/CODE TOT/4).

[4] The draft code as at the end of the first part of the Conference (October-November 1978) is to be found in document TD/CODE TOT/9 and Corr.1.

(*c*) The chapters on definitions and scope of application and restrictive practices are substantially negotiated but major outstanding issues are still to be resolved;

(*d*) The chapter dealing with guarantees, responsibilities and obligations is practically agreed but with one important section still to be negotiated;

(*e*) The chapter on applicable law and settlement of disputes has not yet been negotiated.

14. A brief review of the various chapters of the code of conduct is given below.

1. *Results achieved during the first part of the Conference*

(a) *The preamble to the code*

15. The preamble to the code is almost an agreed text. The outstanding paragraphs relate to questions involving the broad issue of the legal character of the final instrument.[5] The preamble sets forth the aspirations and the general intentions of the international community in the area of transfer of technology. In this respect, one concept embodied in the preamble is that science and technology play a fundamental role in the socio-economic development of all countries and that technology is key to the progress of mankind, and that all peoples have the right to benefit from the advances and developments in science and technology in order to improve their standards of living.

(b) *Objectives and principles*

16. The chapter on objectives and principles contains agreed language in all its paragraphs, with the exception of those relating to questions dealing with restrictive practices; guarantees, responsibilities and obligations; national regulation; political and economic discrimination; industrial property; dispute settlement; and legal character of the code.

17. The objectives of the draft code of conduct include, among others, that of the establishment of general and equitable standards for parties and Governments, taking into consideration their legitimate interests and giving due recognition to the special needs of developing countries for the fulfilment of their economic and social development objectives. In the principles it is recognized that the code of conduct is universal in scope and addressed to all parties to transactions as well as to all countries and groups of countries, irrespective of their economic and political systems and their levels of development.

(c) *National regulation of transfer of technology transactions*

18. The chapter on national regulation has been agreed to in almost all its provisions, with some important exceptions related to basic issues of the code to which some attention is given in subsequent paragraphs of the present report.

19. The right of States to adopt laws, regulations and rules, and policies with respect to transfer of technology transactions is fully recognized, but it is provided that this right should be exercised on the basis of, *inter alia*, the following criteria: promotion of a favourable and beneficial climate for the international transfer of technology; taking into consideration in an equitable manner the legitimate interests of all parties. The criteria for national regulation are to apply to the adoption and implementation of measures on regulation of the flow and effects of transfer of technology, finance and technical aspects of technology transactions and on organizational forms and mechanisms.

(d) *Restrictive practices*

20. This chapter of the draft code deals with practices which are considered undesirable and therefore should not be followed, even when they are introduced into the provisions of individual transfer of technology transactions. Their positive counterpart is to be found in the chapter dealing with guarantees, responsibilities and obligations. Together, these two sets of provisions, which affect the terms on which technology is to be transferred, govern the relations between the parties to transactions and may be said to form the core of the regulatory aspects of the code.

21. The Conference reviewed the agreement already reached by the Intergovernmental Group of Experts on the inclusion in the code of 14 restrictive practices. Full agreement has been reached on the provisions relating to exclusive dealing, exclusive sales or representation agreements, and payments and other obligations after expiration of industrial property rights. A consolidated text was prepared for the introductory section ("*chapeau*") of this chapter where the different approaches of the regional groups on the test to be applied to ascertain whether specific practices should be considered restrictive and thus not observed are spelled out. With respect to the criteria to be applied, agreement has been reached on including the notion of restraint of trade and adverse effects on the international flow of technology, particularly when practices hinder the economic and technological development of acquiring countries.

(e) *Guarantees/Responsibilities/Obligations*

22. This chapter of the draft code sets forth the positive obligations which are to be a part of transactions for the transfer of technology; these requirements have been variously described as guarantees, responsibilities and obligations, and are addressed to the parties to transfer of technology transactions.[6]

23. There are two identifiable phases to which these provisions apply. The first is the pre-contractual phase when the potential parties are negotiating the terms of the transactions; the second is the contractual phase after the parties have entered into their agreement or other assignment.

24. Responsiveness to the economic and social development objectives of the respective countries of the parties, and particularly of the technology-acquiring country, is to be shown by the parties when negotiating and concluding a technology transfer agreement. The draft code also provides that parties should observe fair and honest business

[5] *Ibid.*, paras. 11, 12 and 13 of the preamble.

[6] The Chairman of Working Group 4 has suggested the following title for this chapter of the code: "Responsibilities and obligations of parties" (*ibid.*, appendix D).

practices when negotiating, concluding and performing a technology transfer agreement.

25. Agreement has been reached on various provisions referring to the negotiating phase, such as use of locally available resources; rendering of technical assistance; relevant information; confidential information; and termination of negotiations. Both the *chapeau* of the section of the chapter dealing with responsiveness to development objectives and references in this chapter to the price or consideration to be charged for the technology to be transferred,[7] as well as the paragraph dealing with unpackaging,[8] are still to be settled. In addition, the section referring to the contractual phase is still under consideration.[9]

(f) *Special treatment*

26. Special treatment for developing countries is a chapter of the draft code on which consensus has been reached. It calls for action by developed countries to give developing countries special treatment through general governmental policies (addressed to both national governmental authorities and to national enterprises and institutions) and through co-operation arrangements when the activities are to take place in developing countries. Other provisions of the chapter set forth actions that Governments of developed countries should take, directly or through appropriate international organizations, in response to specific requests from developing countries with a view to assisting in the promotion of transfer of technology to developing countries.

(g) *Other chapters*

27. Other chapters of the draft code of conduct—namely, definitions and scope of application, international collaboration (particularly on the question of international implementation of the code of conduct), and applicable law and settlement of disputes—were discussed by the respective working groups of the Conference. But an agreed text could not be prepared. The chapter on definitions and scope of application was discussed during the Conference on the basis of a text proposed by the Chairman of Working Group 1; pending further negotiation, the text in the draft code remains the same as that consolidated by the Intergovernmental Group of Experts. The chapter on international collaboration is almost an agreed text but with the important exception of the whole section on international implementation of the code.

2. *Review of some outstanding issues*

(a) *What constitutes an "international" transfer of technology transaction and the related question of parent-subsidiary relations*

28. The issue of what constitutes an "international" transfer of technology transaction is raised in the chapter of the draft code dealing with definitions and scope of application of the code of conduct. The code is to apply to all international transfer of technology between a "supplying party" and an "acquiring party". The question still to be settled is what constitutes an "international" transfer of technology. Group B regards an international transfer as the transfer of technology across national boundaries, while Group D and the Group of 77 regard it as a transaction which is entered into between two or more parties who do not reside or are not established in the same country and between parties who are resident or established in the same country when at least one is a branch or subsidiary of a foreign entity, or when it is acting as intermediary in the transfer of foreign-owned technology.[10]

29. An important element of the problem of describing the "international" transfer of technology transaction is the role of subsidiaries and affiliates. The Group of 77 and Group D see them as representatives of their parent companies, and therefore the transaction between a subsidiary and an enterprise owned and controlled by nationals of the acquiring country is considered to be international. Group B regards the subsidiary organization in an acquiring country as being a principal in the transaction; thus a transaction between such a subsidiary and a national enterprise of the acquiring country would not be an international transaction.

30. With reference to the chapter on restrictive practices, an important issue to be decided is whether the code is to apply to intra-enterprise transactions of transnational corporations.

31. The Group of 77 position is that "practices and restrictions between commonly owned enterprises should be examined in the light of the rules, exceptions and factors applicable to all transfer of technology transactions".[11] Such practices may be considered as not contrary to the provisions of the code when they are otherwise acceptable and do not adversely affect the transfer of technology. The Group B position in this respect is that "restrictions for the purpose of rationalization or reasonable allocation of functions between parent and subsidiary or among enterprises belonging to the same concern will normally be considered not contrary to this chapter unless amounting to an abuse of a dominant position of market power within

[7] *Ibid.*, chapter on "guarantees/responsibilities/obligations", sect. 3 (*a*) (i).

[8] *Ibid.*, sect. 2 (*c*).

[9] On this question, see the consolidated draft text submitted by the Chairman of Working Group 4 on the contractual phase (*ibid.*, appendix E).

[10] The Chairman of Working Group 1 of the Conference has attempted to bridge the gap between the positions of the various regional groups by offering the following formulation:

> "The Code of conduct shall apply to international transfer of technology transactions which occur when technology is transferred across national boundaries between the supplying party and the acquiring party or when a transfer of technology transaction is entered into between parties which do not reside or are not established in the same country, as well as between parties which are resident of or established in the same country, if at least one party is a branch, subsidiary or affiliate or is otherwise directly or indirectly controlled by a foreign entity and the technology transferred has not been developed in the technology acquiring country by the supplying party, or when it otherwise acts as an intermediary in the transfer of foreign-owned technology." (*Ibid.*, appendix A, para. 4.)

[11] *Ibid.*, chapter on restrictive practices, sect. A, second paragraph. (As indicated in foot-note 17, this text is a preliminary attempt by the spokesman for the Group of 77 to deal with this question.)

the relevant market, for example unreasonable restraint of the trade of a competing enterprise".[12]

(b) *Criteria for the enactment of national regulations*

32. In the chapter of the draft code dealing with national regulation of transfer of technology transactions a substantial agreement has already been reached, subject to the resolution of some outstanding issues basically related to the criteria for the enactment of national regulations and policies.

33. The manner and extent to which rules of international law, treaties and other agreements are to be taken into account in the exercise of the right of States to adopt laws, regulations and rules, and policies with respect to transfer of technology transactions remains to be settled. Group B considers that national measures should be taken by States in accordance with their international obligations under international law, treaties and other agreements, and taking into account the provisions of the code of conduct. Group D is of the opinion that national measures should be adopted on the basis of universally acknowledged principles and norms of international law and treaty obligations and with respect to the provisions of the code of conduct. The Group of 77, on the other hand, considers that national measures should be adopted taking into consideration commitments by States arising in this field from international treaty obligations to which they have subscribed and the provisions of the code of conduct.

34. Another question relating to the criteria set forth in this chapter for the adoption of national measures is the attitude to be adopted in the code towards the protection of industrial property. Groups B and D have urged the effective protection of industrial property and other related rights of the parties involved, while the Group of 77 has maintained that the code should ensure an equitable balance between the needs of economic and social development, particularly of the developing countries, and the rights granted by industrial property.

(c) *Definitional difficulties concerning the chapter on restrictive practices and the question of exceptions*

35. The practices listed in the chapter on restrictive practices in the draft code include those which are regarded in some Group B countries as being restrictive business practices that are anti-competitive in nature and prohibited on the grounds that they restrict competition. This, however, would not appear to be the criterion to be applied by either the Group of 77 countries or the Group D countries. To the Group of 77 it seems important to eliminate all practices which, whether anti-competitive or not, are regarded as being, for one reason or another, unfair to one of the parties, or which adversely affect economic and technological development in the wider sense.

36. One outstanding issue, therefore, is whether the chapter on restrictive practices should include only those practices which have been identified and specifically dealt with, or whether these are merely examples of practices falling within a broadly defined area of prohibition.

37. The question of coverage and scope of the practices is also reflected in the titles proposed by each of the regional groups for this chapter. The Group of 77 suggests a general title: "The regulation of practices and arrangements involving the transfer of technology". Group B limits it to "Restrictive business practices" and Group D regards it as being the "Exclusion of political discrimination and restrictive business practices".[13]

38. In dealing with the specific practices which are in principle to be prohibited or regulated by the code of conduct, one of the problems concerns the method of formulation of the provisions. In the experience of developed market-economy countries it is difficult to lay down legislation containing an absolute prohibition. Although certain restrictions may adversely affect competition and are therefore to be prohibited, certain other restrictions falling within the same definition may have additional effects and may confer benefits on the economy.

39. Therefore, according to this view, there should generally be an evaluation of the practice concerned to determine whether, on balance, its effect will be harmful or beneficial. The need to take into account a balancing of interests has led the United States of America to introduce the notion of the "rule of reason" into the prohibition of anti-competitive practices under the Sherman Act. Other countries have used the concept of "public interest" or *intérêt public* to achieve flexibility in applying their law.

40. The approach of Group B is to include the word "unreasonable" in the definition of the practices wherever such an evaluation may be necessary. The Group of 77, however, considers the term to be so vague as to give rise to a real danger of arbitrary determination by decision-making officials or by the parties themselves; in view of this lack of an agreed definition of the term "restrictive practice", there would be room for a good deal of ambiguity of interpretation which would need to be examined and resolved.

41. A related question refers to the position of the Group of 77 that the competent national authorities of the technology acquiring country, in exceptional circumstances, may decide that it is in the public interest of that country to disregard the restrictive practice proscribed by the code, provided that on balance there will be no adverse effect on its national economy. Group D agrees to this provision on the condition that the restrictions will have no substantial adverse effects in other countries. Group B has not expressed support for such a clause.

(d) *Applicable law and settlement of disputes*

42. The chapter on applicable law and settlement of disputes was examined by the Conference and no composite text was produced on this subject.[14]

43. The position of Group B is that the parties should have the freedom to choose the applicable national law and the national forum before which disputes will be brought. If the parties have not chosen either the law or the forum, the Group B draft text sets forth criteria for decision-makers, based on considerations of substantial relationship between applicable law and the forum, on the one hand,

[12] *Ibid.*

[13] The Chairman of Working Group 3 has suggested the title: "Restrictive practices in transfer of technology transactions" (*ibid.*, appendix C).

[14] On the positions of regional groups on these questions, see TD/CODE TOT/9 and Corr.1, appendix G.

and the parties and transaction, on the other hand. Group D is of the view that the parties should have the right to choose the law applicable "within the limits permitted by their national legislation". Both Group D and Group B recommend the settlement of disputes by arbitration and the recognition and enforcement of arbitral awards under the Convention on the Recognition and Enforcement of Foreign Arbitral Awards.[15]

44. The Group of 77, on the other hand, considers that the law of the acquiring country should be applicable to matters relating to public policy (*ordre public*) and to sovereignty and that the parties should have the freedom to choose the law applicable to matters of private interest provided that the law chosen has a direct, effective and permanent relationship with the transaction. The law of the acquiring country is to apply to questions of characterization. Regarding the settlement of disputes, the Group of 77 position is that the courts and other tribunals of the acquiring country will have jurisdiction over questions related to public policy (*ordre public*), to sovereignty and to characterization. Matters related to the contractual relationships can be brought by parties before a forum of their choice provided that the forum chosen has a direct, effective, and permanent relationship to the contract. Recourse to arbitration is recognized and a basic system of arbitration is introduced containing rules on the choice of arbitrators and the use of the arbitration rules of the United Nations Commission on International Trade Law. The Group of 77 text also includes a provision on the recognition and enforcement of judicial judgements and arbitration awards.

(e) *The legal character of the code and related questions*

45. Conference resolution 89 (IV) provided expressly, in paragraph 2, that the Intergovernmental Group of Experts "shall be free to formulate the draft provisions ranging from mandatory to optional, without prejudice to the final decision on the legal character of the code of conduct". The United Nations Conference on an International Code of Conduct on the Transfer of Technology is called upon to take all decisions necessary for the adoption of the final document embodying the international code of conduct, including the decision on its legal character.

46. The Group of 77 has maintained the position "that an international legally binding instrument is the only form capable of effectively regulating the transfer of technology".[16] Group B's position is that the code of conduct should consist of guidelines which are voluntary and legally non-binding, and which "neither alter nor in any way supersede national or international law nor the responsibilities of States thereunder or as set forth in international treaties or agreements".[17] Group D has not stated a definite view on this issue. China favours a legally binding code, not a code which serves "only as a guideline without any binding force".[18]

47. The positions of the regional groups reflect the two broad alternatives for giving effect to the code: namely, a convention which is formally binding on States parties under international law, or a legal instrument which is not formally binding, such as a resolution of the United Nations General Assembly or of some other international organization.[19]

48. The final chapter of the draft code of conduct relates to "other provisions" still to be drafted. They are closely related to the question of the legal character of the code and the actual drafting of this chapter will depend on the outcome of the discussions and decisions on that key issue.

49. The Group of 77 has set forth some ideas on the question of the machinery for the implementation of the code. These ideas, which are set out in an informal paper, reflect the position that the code will be legally binding under international law.[20] Group B has also submitted a tentative proposal on international machinery based on the notion of a voluntary code of conduct.[21]

3. *Next phase of the negotiations*

50. At the 7th plenary meeting of the United Nations Conference on an International Code of Conduct on the Transfer of Technology, on 11 November 1978, it was decided to request the Secretary-General of UNCTAD to take the necessary measures for convening a resumed session of the Conference in the first quarter of 1979. Subject to a decision by the General Assembly on this question, the resumed session of the Conference is scheduled to be held between 26 February and 9 March 1979.[22]

CHAPTER II

The contribution of UNCTAD to economic, commercial and development aspects of the industrial property system in the context of its on-going revision

A. Background

51. In accordance with Conference resolution 39 (III), a report entitled *The Role of the Patent System in the Transfer of Technology to Developing Countries*[23] was prepared jointly, in 1974, by the United Nations Department of Economic and Social Affairs, the UNCTAD secretariat and the International Bureau of the World Intellectual Property Organization (WIPO).

52. In September 1975 a group of governmental Experts was convened by the Secretary-General of UNCTAD to study the role of the patent system in the transfer of technology to developing countries. On the basis

[15] United Nations, *Treaty Series*, vol. 330, p. 3.

[16] TD/CODE TOT/1/Add.1, annex I, preamble, para. 8.

[17] *Ibid.*, annex II, chap. VIII, para. 8.2.

[18] TD/CODE TOT/1/Add.1, para. 20.

[19] For possible solutions to the problem of the legal character of the code, see TD/CODE TOT/4, paras. 75-80.

[20] See TD/CODE TOT/9 and Corr.1, appendix F, sect. 1.

[21] *Ibid.*, sect. 2.

[22] See document TD/237/Add.1 below.

[23] United Nations publication, Sales No. E.75.II.D.6.

of the agreed conclusions and recommendations of that group of experts, the Committee on Transfer of Technology at its first session adopted resolution 3 (I)[24] defining the main considerations that should guide the process of revision of the Paris Convention for the Protection of Industrial Property, as well as of the WIPO Model Law for Developing Countries on Inventions.

53. At the fourth session of the United Nations Conference on Trade and Development, the Conference unanimously adopted resolution 88 (IV) which in paragraph 4 recommended that UNCTAD should play a prominent role in the revision of the industrial property system with regard to its economic, commercial and developmental aspects.

B. Recent UNCTAD work

54. In October 1977, the Secretary-General of UNCTAD convened a new group, the Group of Governmental Experts on the Role of the Industrial Property System in the Transfer of Technology, to continue the consideration of the revision process of the Paris Convention and to discuss the second pillar of the industrial property system, i.e. trade marks. Two reports, were prepared by the UNCTAD secretariat for that meeting.[25]

1. *The international patent system*

55. The report on the international patent system[26] treated the main elements of the revision of the Paris Convention and the main considerations that should guide such revision from the viewpoint of developing countries. These elements and considerations may be briefly summarized as follows:

(*a*) The Convention should recognize explicitly the right of a member State to adopt any legislative measure deemed necessary to prevent the non-working of patents and other abuses emerging from the patentee's exclusive rights. The recourse to any one of these measures should not be conditional upon, or conditioned by, the prior or simultaneous use of any of the other measures.

(*b*) The Convention should not include restrictions on the national legislation with regard to the effect of importations of a patented product, nor obligations in relation to the rights concerning importation deriving from a process patent.

(*c*) The priority period should be reduced. At the same time, the possibility should be explored of granting preferential treatment with regard to its duration for inventions originating in developing countries.

(*d*) The priority right should not apply against third parties that have in good faith started the exploitation of the invention concerned. Moreover, as a measure of preferential treatment, applicants of developing countries should not be prevented from the use of their inventions when they have in good faith filed an application during the priority period.

(*e*) There should be an obligation on the applicant for a patent who claims priority rights to indicate the results of the application in other countries to the relevant authorities. There should also be provision for the compulsory exchange of information among patent offices of all orders passed by administrative and judicial authorities with regard to the granting and validity of a patent. Such a provision should be incorporated to enable the competent authorities to pass orders similar, when the same legal or factual circumstances apply, to those passed in the country where another patent was applied for or granted.

(*f*) Developing countries should be encouraged to design certain types of patents for which only their own nationals would be eligible and whose purpose would be to encourage domestic inventions, innovations and adaptation. The principle of non-reciprocal preferential treatment for developing countries should be expressly accepted.

(*g*) The Convention should recognize that different kinds of industrial property may have quite different sets of advantages and disadvantages for developing countries in the pursuit of their development objectives. The revised Convention should therefore provide for maximum flexibility for the developing countries to adopt certain subgroups of industrial property rights and to make reservations when adopting part or all of any revised Convention.

(*h*) The Convention should not curtail the right of developing countries to enter into bilateral or multilateral arrangements they might find consistent with their national development policies and co-operation programmes.

2. *Trade marks*

56. The secretariat study on the role of trade marks[27] brought out the proliferation of trade marks in developing countries. Trade marks are introduced into the market place at the cost of an enormous expenditure in advertising, twice as much as the resources which developing countries devote to research and development.

57. Because of trade marks, consumers pay higher prices than would appear to be justified by the degree of quality control ensured through trade marks. The advertising effort carried out by the producer is well rewarded by the accrual of assets in terms of goodwill for the trade mark owner. Thus, the gains of the producers are financed by higher prices paid by consumers. In the case of foreign-owned trade marks the situation is even more extreme. Although the advertising expenditures are borne by the consumers of the acquiring countries, the accrual in goodwill is for the benefit of the non-resident owner of that intangible asset. The benefits which thus go to the foreign trade mark owner can be considered as net social costs for the acquiring country.

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[24] See *Official Records of the Trade and Development Board, Seventh Special Session, Supplement No. 4* (TD/B/593), annex I.

[25] See "The international patent system—The revision of the Paris Convention for the Protection of Industrial Property: report by the UNCTAD secretariat" (TD/B/C.6/AC.3/2) and *The role of trade marks in developing countries* (United Nations publication, Sales No. E.79.II.D.5).

[26] TD/B/C.6/AC.3/2. See also "United States of America: preliminary comments on the report by the UNCTAD secretariat entitled: "The international patent system: the revision of the Paris Convention for the Protection of Industrial Property": text submitted by the expert from the United States of America" (TD/B/C.6/24/Add.1, annex V).

[27] See United Nations publication, Sales No. E.79.II.D.5.

58. In addition to these social costs, there are indirect social costs to be considered. The pattern of dependent industrialization is reinforced by trade marks. Foreign-owned trade marks have played an important role in shaping consumption patterns in their favour, leading to a misallocation of resources in the production of goods and services which are less than well suited to the basic needs of the population of developing countries. In these circumstances, the social benefits that can be attributed to trade marks–an indirect way of identifying quality in consumer goods–are limited compared with the high social costs involved in the operation of foreign-owned trade marks.

3. *Group of Governmental Experts on the Role of the Industrial Property System in the Transfer of Technology (6-14 October 1977)*[28]

59. Concerning the revision of the Paris Convention for the Protection of Industrial Property, the Group of Governmental Experts decided to request the Secretary-General of UNCTAD to transmit the report and results of to the Director-General of WIPO.

60. Further, the Group of Governmental Experts agreed that the issues raised in the study on trade marks which directly relate to trade mark legislation and practices should be taken into consideration by Governments in formulating national trade mark laws and policies and by WIPO in the revision of the Paris Convention and in the new model law on trade marks for developing countries.[29]

61. Clearly the consideration of the role of trade marks has added a new dimension to the revision process of the industrial property system, both at the level of the Paris Convention as well as at the national level.[30]

C. The current revision of the Paris Convention

62. The current revision of the Paris Convention for the Protection of Industrial Property is taking place in WIPO. A preparatory intergovernmental committee has been established which has held five sessions, the last one in November-December 1978. The diplomatic conference for the revision of the Paris Convention is to be held in Geneva in February 1980.

63. The Paris Convention has already been revised on six occasions. This is the first time in the history of the Convention that the special interests of the developing countries are being taken into account. In the six previous revisions, where developing countries played a marginal role, the result was basically a strengthening of the position of patent holders. In the present revision, developing countries are attempting to establish a fair balance between the broader needs of development and the public interest on one side, and the patent holder's rights on the other.[31]

64. The new proposal on article 5A of the Paris Convention, discussed at the second session of the Preparatory Intergovernmental Committee on the Revision of the Paris Convention for the Protection of Industrial Property, constitutes an important development in relation to patents.[32] This proposal includes several aspects of interest to developing countries. It is recognized in the proposal that importation does not constitute working of a patent. Procedures for the use of non-voluntary licences are provided for and a provision is made in relation to the exploitation of the patented invention by Governments or by third persons authorized by the Government for reasons of public interest. The proposal includes the acceptance of the possibility of granting, in special cases, exclusive licenses to ensure local working. It also recognizes the right of developing countries to introduce a system of revocation, provided the national law of the country provides for a system of non-voluntary licences.

65. Two other proposals were discussed at the third session of the Preparatory Intergovernmental Committee. One of them, on a new article 12 *bis*, establishes a procedure for exchanging patent information among members of the International Union for the Protection of Industrial Property (Paris Union).[33] The other, provisionally designated "article 12 *ter*", is a proposal on development co-operation in the area of industrial property.[34]

66. Two matters of major concern to developing countries–namely, the effects of article 5 *quater*[35] and preferential treatment without reciprocity–were discussed by the Preparatory Intergovernmental Committee. Both subjects will be dealt with at the forthcoming diplomatic conference.

67. The actual process of revision of the Paris Convention has been devoted largely to patents of invention. The provisions of the Convention relating to trade marks have scarcely been discussed, except in connexion with the conflict between trade marks and appellations of origin.

68. Clearly, to revise the Paris Convention in order to promote the actual working of inventions and to enable member countries to take appropriate measures to prevent possible abuses resulting from the exercising of the right granted by industrial property legislation is not an easy

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[28] For the report of the Group of Governmental Experts, see TD/B/C.6/24 and Add.1.

[29] The Group of Governmental Experts also formulated some agreed conclusions and recommendations on the impact of trade marks on the development process of developing countries (see TD/B/C.6/24, annex I).

[30] At its second session (December 1978) the Committee on Transfer of Technology decided to endorse the agreed conclusions and recommendations of the Group of Governmental Experts on the impact of trade marks on the development process of developing countries (see *Official Records of the Trade and Development Board, Tenth Special Session, Supplement No. 4* (TD/B/736), annex I, decision 4 (II)).

[31] In the context, see the conclusions of the exports from developing countries on the role of the patent system in the transfer of technology to developing countries (*Official Records of the Trade and Development Board, Seventh Special Session, Supplement No. 4* (TD/B/593), annexe III). See also the "Declaration on the Objectives of the Revision of the Paris Convention" (*Industrial Property* (Geneva), January 1976, p. 47), as agreed upon by the WIPO *Ad Hoc* Group of Governmental Experts on the Revision of the Paris Convention at its second session (Geneva, 15-22 December 1975).

[32] The text of the proposal appears in WIPO, document PR/PIC/II/2/Rev.2.

[33] See WIPO, document PR/PIC/III/3.

[34] See WIPO, document PR/PIC/III/4.

[35] The group of developing countries expressed the view that article 5 *quater* should be omitted from the Convention or, if it is maintained, an appropriate provision should be inserted in the revised Convention to the effect that developing countries were not obliged to apply article 5 *quarter* (see WIPO, document PR/WGQDC/III/7, para. 13).

task. The current revision is one attempt to undo the adverse effects of the preceding six revisions which strengthened the rights of patentees at the expense of the public interest.[36]

69. The results of the preparatory meetings suggest that a new trend towards giving greater recognition to the economic and social development needs of countries and ensuring some balance between these needs and the rights granted by patents is slowly beginning to emerge. Much will depend, of course, on the extent to which some of the basic concerns of developing countries are in fact incorporated in the seventh revision of the Paris Convention.[37]

D. Revision of the industrial property system at national level

70. Parallel to the current revision of the Paris Convention, a new model law for developing countries on inventions and know-how[38] has been nearly completed and a new model law for developing countries on marks and trade names[39] is now under preparation in WIPO.

71. Some initiatives have been taken in developing countries to revise industrial property laws and policies. This aspect was discussed by the UNCTAD secretariat in a paper prepared for the consideration of the Group of Governmental Experts in 1975[40] but the ground to be covered is still considerable.

72. New developments have been taking place in countries like Mexico,[41] Ecuador,[42] the Republic of Korea,[43] the Philippines,[44] and India.[45] These initiatives have not yet been thoroughly assessed but they reflect a trend towards reinforcing the public interest in cases of abuse resulting from the exercising of the rights granted by industrial property laws.

E. Issues for the fifth session of the United Nations Conference on Trade and Development

73. On the current revision of the Paris Convention for the Protection of Industrial Property, the UNCTAD secretariat has outlined the main problems facing developing countries and has suggested a number of possible lines of action to safeguard their interests.[46] Some of these suggestions have been taken up in the preparatory negotiations leading to the diplomatic conference.

74. The contribution of UNCTAD to the revision of the industrial property system, at both the national and the international levels, should be focussed on the relation between patent and trade mark policies and the broad economic and technological development objectives of developing countries.

75. In this connexion, it would be important to examine the impact of industrial property policies in relation to other policies dealing with transfer and development of technology, foreign investment, restrictive practices, consumer protection and industrialization in general. It would also be pertinent to assess the effects of industrial property policies upon different economic factors, namely domestic private and public firms and transnational enterprises operating in developing countries. This would shed more light on the economic, commercial and developmental aspects of the industrial property system, which are usually overlooked in technical discussions.

76. Further work in this field should also be concentrated in the preparation of studies on developing countries' experiences in implementing new industrial property laws and policies in the context of their regulations on transfer and development of technology and foreign investment. This would not only help those developing countries which have taken initiatives in this field to improve the effectiveness of their policies but might also assist other developing countries in seeking solutions to their specific problems.

77. It will also be useful to assess the role of patents and trade marks in matters of special concern to developing countries, such as the role of trade mark protection in vital sectors of the economy, in consumer protection and in the promotion of exports. On this particular aspect the Committee on Transfer of Technology, at its second session (December 1978), decided to request the Secretary-General of UNCTAD to undertake studies in the field of industrial property on matters of special concern to developing countries,[47] The Committee also decided to recommend that the Secretary-General of UNCTAD convene a meeting of governmental experts to continue, on the basis of the new studies, the examination of the economic, commercial

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[36] This can be appreciated in the successive texts of article 5 of the Paris Convention in relation to the growing importance attached to compulsory licensing vis-à-vis revocation of a patent. See C. Akerman, *L'obligation d'exploiter et la licence obligatoire en matière de brevets d'invention* (Paris, Librairie du Recueil Sirey, 1936); U. Anderfelt, *International Patent-Legislation and Developing Countries* (The Hague, Martinus Nijhoff, 1971) and J.-M. Salamolard, *La licence obligatoire en matière de brevets d'invention : étude de droit comparé*, Thèse de doctorat, Université de Lausanne (Lausanne, Imprimeries réunies, 1978).

[37] On the concerns of developing countries in this area, see the declaration of governmental experts from developing countries members of the Group of 77 on the role of the industrial property system in the transfer of technology (TD/B/C.6/24/Add.1, annex IV).

[38] See WIPO, documents WG/ML/INV/VII/1-17, submitted to the Working Group on the Model Law for Developing Countries on Inventions and Know-how, seventh session, Geneva, May 1978.

[39] See WIPO, documents WG/ML/TM/I/1 and WG/ML/TM/II/1, submitted to the Working Group on the Model Law for Developing Countries on Marks and Trade Names, first and second sessions, Geneva, November 1977 and June 1978.

[40] See "Promotion of national scientific and technological capabilities and revision of the patent system: report by the UNCTAD secretariat" (TD/B/C.6/AC.2/2).

[41] See the Mexican Law on Inventions and Trade Marks, 1976.

[42] See Ecuador, Decree No. 1257 of 1977, implementing Decision 85 on industrial property by the Cartagena Agreement Commission.

[43] See Byong Ho Lee, "Report on current trademark practices in Korea", *Trademark Reporter* (New York, N.Y.), vol. 67, pp. 46-53.

[44] See Presidential Decree No. 1263 amending portions of Republic Act No. 165, otherwise known as the Patent Law.

[45] See "Statement to be laid on the table of the Lok Sabha on 29 March 1978 by Shri H. N. Bahuguna, Minister of Petroleum, Chemicals and Fertilizers, containing Government decisions on the (Hathi) Committee on Drugs and Pharmaceutical Industry".

[46] TD/B/C.6/AC.3/2 and *The role of trade marks in developing countries...*

[47] See *Official Records of the Trade and Development Board, Tenth Special Session, Supplement No. 4* (TD/B/736), annex I, decision 4 (II), para. 3.

and developmental aspects of industrial property in the transfer of technology to developing countries and to make recommendations thereon.[48]

[48] *Ibid.*, para. 4.

78. A thorough examination of these issues, combined with appropriate technical assistance by UNCTAD, would contribute to transforming the industrial property system into a more useful instrument for the economic and technological development of developing countries.

DOCUMENT TD/237/ADD.1

Addendum

[*Original: English*]
[*12 April 1979*]

Introduction

1. Chapter I of the report by the UNCTAD secretariat (document TD/237 above) dealt with the negotiations launched by the United Nations Conference on Trade and Development at its fourth session on the preparation of an international code of conduct on the transfer of technology. It gave a summary review of the background and general structure of the draft international code of conduct and referred to the results achieved during the first part of the United Nations Conference on an International Code of Conduct on the Transfer of Technology (October-November 1978). The report also reviewed some of the basic outstanding issues, namely, what constitutes an "international" transfer of technology transaction and the related question of parent-subsidiary relations; the criteria for the enactment of national regulations; definitional difficulties and the question of exceptions concerning the chapter on restrictive practices; applicable law and settlement of disputes; and the legal character of the code and related questions.

2. The present paper is intended to update the main report following the deliberations at the resumed session of the United Nations Conference on an International Code of Conduct on the Transfer of Technology, held from 26 February to 9 March 1979.[1]

3. The resumed session dealt mainly with the following chapters of the draft code of conduct: definitions and scope of application; national regulation of transfer of technology transactions; restrictive practices; responsibilities and obligations of parties; international institutional machinery; and applicable law and settlement of disputes. In connexion with the chapters on restrictive practices and applicable law and settlement of disputes, no major progress was achieved and the present state of the negotiations is a reflected in document TD/237 above.

[1] The draft international code of conduct on the transfer of technology as of 9 March 1979 is reproduced in document TD/CODE TOT/14 and Corr.1. Selected documents of the resumed session (26 February-9 March 1979) are to be found in TD/CODE TOT/15.

I. *Results achieved during the resumed session of the United Nations Conference on an International Code of Conduct on the Transfer of Technology*

A. Definitions and scope of application

4. A revised chapter on definitions and scope of application was prepared during the resumed session. There is agreement on the definition of "party", "acquiring party" and "supplying party". The term "party" includes incorporated branches, subsidiaries and affiliates, joint ventures or other legal entities regardless of the economic and other relationships between and among them.[2]

5. As stated in paragraph 28 of the above report, one important outstanding issue of the draft code relates to the concept of "international" transfer of technology. The existing gap between the regional groups' positions has been narrowed to a certain degree. There is a broad agreement that the code applies to such transfer of technology transactions which occur when technology is transferred across national boundaries. For the Group of 77 and Group D the basic criterion for the application of the code is that an international transaction is that "entered into between parties which do not reside or are not established in the same country, as well as between parties which are resident of or established in the same country, if at least one party is a branch, subsidiary or affiliate or is otherwise directly or indirectly controlled by a foreign entity and the technology transferred has not been developed in the technology acquiring country by the supplying party, or when it otherwise acts as an intermediary in the transfer of foreign owned technology".[3] Group B considers that national law should apply as regards transactions taking place between parties within national boundaries, but that States may also apply, by means of national legislation, the principles of the code of those transactions.[4]

[2] It should be noted that Group B accepted the inclusion of a sentence to this effect, subject to agreement to be reached on qualifications relating to the application of the code to the relations of these entities in relevant parts of the code. See TD/CODE TOT/14 and Corr.1, foot-note 3.

[3] *Ibid.*, chapter on definitions and scope of application, para. 4.

[4] On this question the Chairman of Working Group offered a compromise text that reads:

"The code of conduct shall apply to international transfer of technology transactions which occur when technology is

6. The chapter on definitions and scope of application also contains other outstanding issues such as the question of whether to include a definition of "technology acquiring country", to exclude the "lease" of goods from the scope of application and the reference in the code to "technical co-operation arrangements".[5]

B. National regulation of transfer of technology transactions

7. At the resumed session the draft text on national regulation was reviewed and it was amended in some key areas. Agreement was reached on the question of protection of industrial property whereby it is provided that each country, in adopting legislation in this area, "should have regard to its national needs of economic and social development, and should ensure an effective protection of industrial property rights granted under its national law and other related rights recognized by its national law".[6]

8. After the resumed session, the chapter shows a great deal of agreement on key issues but some important outstanding issues are still not resolved, such as reference in the *chapeau* to "renegotiation" and to "international obligations under international law" as regards the adoption of national measures;[7] the question of "proper regard for the existing rights and obligations of the parties" when introducing changes in national legislation;[8] and questions related to "fundamental fairness" and non-discrimination in the application of national measures.[9]

C. Responsibilities and obligations of parties[10]

9. At the resumed session a large degree of agreement was reached on the chapter on responsibilities and obligations of parties. It is the longest chapter of the draft code of conduct and contains two major sections: one on the negotiating phase and the other on the contractual phase of technology transfer agreements. The section on the negotiating phase is an almost agreed text. The section dealing with the contractual phase has a number of agreed provisions but still contains a number of unresolved issues. An issue of particular importance is the question to what extent the problem of pricing should be specified in this chapter. Another major issue refers to the problem of implied obligations in transfer of technology transactions.

10. Concerning pricing, the Group of 77 would prefer a very concrete reference to this question through the incorporation into the code of provisions dealing with non-discrimination in pricing,[11] specification of prices in the agreements,[12] prices for purchase of input[13] and sale of output.[14] Group B has no specific provision on pricing but only a general reference that transfer of technology agreements should contain mutually acceptable contractual obligations, including those relating to payments.[15]

11. The other important aspect to be resolved relates to the nature of the provisions proposed for inclusion in the contractual phase of this chapter. The Group of 77 and Group D consider that at least part of these provisions should be formulated as implied obligations and therefore be applied to transfer of technology agreements regardless of what the parties to the agreement decide. Group B considers that the parties should normally provide for these provisions in accordance with fair and reasonable commercial practices and taking into account the specific circumstances of the individual case, such as the stage of development of technology, the limitation of the supplying party's resources or the nature of the economic relationship of the parties.[16]

D. International institutional machinery

12. At the resumed session the participants negotiated and reached a certain degree of agreement on a chapter dealing with international monitoring of the code.

13. According to the new text, States adopting or accepting the code undertake to take appropriate steps at the national level to meet their commitment to the code. International institutional machinery is to be provided within UNCTAD either in the form of a new intergovernmental body, as proposed by the Group of 77, or by the existing Committee on Transfer of Technology, as proposed by Groups B and D. There is agreement that the intergovernmental body or the Committee may create appropriate subsidiary bodies to assist in its work. It has been agreed that the body or the Committee shall have the functions of providing a forum for discussion and exchange of views between States on matters related to the code, undertaking studies and research to further the aims of the code, inviting and considering relevant studies and reports from within the United Nations system, studying information obtained from States and collecting and disseminating information on such matters.

14. The new body or the Committee is empowered to make appropriate recommendations and to organize symposia and workshops concerning the application of the provisions of the code, subject to approval by the Trade and Development Board when financing from the regular budget is involved.

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transferred across national boundaries between the supplying party and the acquiring party or when a transfer of technology transaction is entered into between parties which do not reside or are not established in the same country. States may also decide to extend the application of the Code of Conduct to transactions which take place between parties which are resident of or established in the same country, if at least one party is a branch, subsidiary or affiliate or is otherwise directly or indirectly controlled by a foreign entity and the technology transferred has not been developed in the technology acquiring country by the supplying party, or when it otherwise acts as an intermediary in the transfer of foreign owned technology." (*Ibid.*, foot-note 5.)

[5] See, for these and other outstanding issues, *ibid.*, chapter on definitions and scope of application, paras. 1 (*d*), 2, 3 (*a*), 3 (*e*), and 6.

[6] *Ibid.*, chapter on national regulation of transfer of technology transactions, new provision 3.4.

[7] *Ibid.*, sect. 3.1.

[8] *Ibid.*, sect. 3.2.B.

[9] *Ibid.*, sect. 3.2.C.

[10] Chairman's proposed title for the chapter on guarantees/responsibilities/obligations.

[11] TD/CODE TOT/14 and Corr.1, chapter on guarantees/responsibilities/obligations, sect. B.3 (*a*) and 3 (*a*) and 3 (*a*) (i) and sect. C.4 (xii).

[12] *Ibid.*, sect. C.4 (xii).

[13] *Ibid.*, sect. C.4 (xiii).

[14] *Ibid.*, sect. C.4 (xiv).

[15] *Ibid.*, sect. C.4.

[16] *Ibid.*

15. It has been agreed that five years after the adoption of the code, the body or the Committee shall review the implementation and application of the code and, if appropriate, request the Trade and Development Board to recommend to the General Assembly that a United Nations conference be convened for the purpose of revising the code.

16. Issues still to be negotiated within this chapter relate to the nature of the institutional machinery—a new intergovernmental body or the Committee on Transfer of Technology—and to some of the functions to be performed by the machinery, i.e. making recommendations to States on the implementation and application of the code or acting as a tribunal or reaching conclusions on the conduct of individual Governments or parties to a transfer of technology transaction.

II. *General overview of the draft code of conduct as of 9 March 1979*

17. Leaving aside the question of the legal character of the code,[17] on which no decision has yet been taken, and the consequences for the drafting of almost all the provisions of the code (e.g. the use of "shall" or "should") of the fact that this major question is still open, the present state of the instrument could be summarized as follows:

(*a*) There are complete texts and full agreement[18] on the preamble and on the chapters dealing with objectives and principles, special treatment for developing countries, and international collaboration;

(*b*) The chapters on definitions and scope of application, national regulation of transfer of technology transactions, and international institutional machinery are close to full agreement, with a few outstanding issues to be resolved;

(*c*) There is substantive agreement on most of the content of the chapter dealing with responsibilities and obligations of parties, but some important sections are still to be negotiated;

(*d*) The chapter on restrictive practices has been substantially negotiated, but basic elements are still open and subject to further negotiations;[19]

(*e*) In the chapter on applicable law and settlement of disputes, major outstanding issues remain unresolved. Regional groups have still maintained their original positions and it has not been possible to arrive at a composite text.[20]

III. *Major issues and possible action by the United Nations Conference on Trade and Development*

18. It can be seen from the above description of the state of the negotiations that the major issues on which agreement has still to be reached fall into the following broad categories:

(*a*) The legal character of the code of conduct affecting the entirety of the instrument and the specific wording of each of the provisions of the code (see para. 17 above);

(*b*) The concept of an "international" transfer of technology transaction as regards the scope of application of the code (see para. 5 above);

(*c*) Criteria for the enactment, revision and application of national regulation of transfer of technology transactions, i.e. the questions of international obligations under international law, existing rights and obligations of parties and non-discrimination (see para. 8 above);

(*d*) Definitional difficulties and the question of exceptions concerning the chapter on restrictive practices;[21]

(*e*) The question of pricing in transfer of technology agreements and the extent of the application of the provisions on contractual obligations and responsibilities of parties (see paras. 10 and 11 above);

(*f*) The nature of the institutional machinery for the application of the code and some of its functions (see para. 16 above);

(*g*) The principles and approaches to be followed on the question of applicable law and settlement of disputes (see para. 17 (*e*) above).

19. At the 9th plenary meeting of the United Nations Conference on an International Code of Conduct on the Transfer of Technology the President read out the following agreed statement:

> This resumed session now adjourns. As we are aware, UNCTAD V has the "International code of conduct on the transfer of technology" on its agenda. The Conference takes due account of its resolution of 11 November 1978 and of General Assembly resolution 33/157 of 20 December 1978 and invites the Secretary-General of UNCTAD and the President of the Conference in consultation with the regional co-ordinators, to prepare for the continuation of the work on an international code of conduct on the transfer of technology.[22]

20. The United Nations Conference on Trade and Development at its fifth session, in its consideration of item 13 (*a*) and its review of the present state of the negotiations, might consider it appropriate to give some guidance to the United Nations Conference on an International Code of Conduct on the Transfer of Technology on one or more of the major outstanding issues outlined in paragraph 18 above. The Conference might also consider, on the basis of the agreed statement quoted in paragraph 19 above, taking action regarding the convening of the second session of the United Nations Conference on an International Code of Conduct on the Transfer of Technology as well as the preparatory work needed for the preparation and successful conclusion of that Conference.

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[17] See, on the question of the legal character of the code, document TD/237 above, paras. 45-49; and TD/CODE TOT/4, paras. 75-80.

[18] This assertion has a twofold qualification: (i) the legal character of the code is still an open question; (ii) there are some provisions still within square brackets, although they do not refer strictly to the negotiation of the respective chapter under consideration but deal rather with questions being negotiated in other chapters, e.g. the reference to restrictive practices or guarantees/responsibilities in the chapter on objectives and principles.

[19] See document TD/237 above, paras. 35-41.

[20] On regional group positions, see document TD/237 above, paras. 43 and 44. At the resumed session of the United Nations Conference on an International Code of Conduct on the Transfer of Technology, the Chairman on Working Group 2 submitted a compromise text which the Conference might decide to use as a basis for furthering negotiations on this subject (see TD/CODE TOT/14 and Corr.1, appendix C).

[21] See document TD/237 above, paras. 35-41.

[22] See TD/CODE TOT/13.

DOCUMENT TD/238

Towards the technological transformation of the developing countries

Report by the UNCTAD secretariat

[*Original: English*]
[*15 March 1979*]

CONTENTS

TABLES

Introduction

1. This report forms a complement to the two reports on the subject submitted to the Conference at its fourth session. The first, on technological dependence, examined the asymmetric nature of the economic structures of the developing and the developed countries, which constitute the main elements in the technological dependence of the former.[1] The second examined current institutional structures in the developing countries and suggested the main lines along which new structures (national and regional centres), or existing institutions, through close co-ordination, could begin to deal with technology as a key element in the development process.[2]

2. A number of steps have been taken since the fourth session of the Conference. The revision of the Paris Convention for the Protection of Industrial Property has begun and negotiations on a code of conduct for the transfer of technology have covered a considerable distance. Regional centres for the transfer and development of technology in the ESCAP region, Africa and Western Asia and a network on technological information in Latin America (RITLA) have either been established or are in course of establishment. The basic ideas on national laws, regulations and policies on the transfer and development of technology, and on the machinery required to implement them, have come to be widely accepted.

3. The world setting has altered in many important aspects in recent years. The confidence prevailing in the 1950s and 1960s contrasts sharply with current uncertainty about the future of the world economy. An entirely new set of problems have arisen, and the need to search for alternative solutions is patently obvious.

4. This change in the world setting will have its repercussions on the developing countries. Constrained economic growth in the developed countries and increasing recourse to protectionist measures will adversely affect the exports of the developing countries and hence their foreign exchange earnings. Ways will have to be found to create much more sustained domestic stimuli than in the past to promote the expansion of their economies.

5. Slower growth in developed market-economy countries has at the same time made developing countries more attractive markets for the leading world exporters of manufactured products and technology. This development might benefit developing countries in so far as they can take advantage of the growing competition among suppliers. However, it might also lead to continually increasing competition in the domestic markets of the developing countries, threatening their incipient national industries. It is therefore important for the developing countries to protect themselves from the adverse impact of external pressures on their domestic markets, and at the same time to bargain for better terms and conditions and in general to strengthen their technological capacity.

6. It is against this background that item 13 (*c*) of the provisional agenda of the Conference should be considered. The term "technological transformation" is used in this report to indicate the main lines along which developing countries could become less dependent—or more self-reliant—in technology in all sectors of their economies. It thus covers a much wider canvas than industrialization. It refers to the structural changes that developing countries would require not only to produce, physically, a variety of manufacturing and agricultural goods and the necessary services but also, and fundamentally, to master the knowledge about producing them. Technological transformation is thus a process involving their more rapid economic growth as well as a reduction in their technological dependence.

7. Chapter I reviews the broad sweep of the technological transformation that has taken place over the last century in what are now the developed countries and sets out the main elements in the dynamics of their technological transformation. Chapter II pinpoints significant changes since 1950 in the developing countries themselves. This is followed by an examination, in chapter III, of the technological gap among nations and a broad look at the possible outline of their technological transformation. The study concludes with an outline of a programme of action to be followed at the national, regional and international levels.

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[1] See *Proceedings..., Fourth Session,* vol. III, *Basic documentation* (United Nations publication, Sales No. E.76.II.D.12), document TD/190.

[2] *Ibid.,* document TD/190/Supp.1.

8. This preliminary report aims at suggesting a general framework within which the technological transformation of developing countries could be achieved. Such a framework is a prerequisite to the setting of long-term targets. Their attainment then becomes the task of technology planning, through the formulation of precise measures for translating the broad possibilities into reality.

CHAPTER I

Main features of the technological transformation of developed countries

9. For an assessment of the perspectives for technological transformation in developing countries, it may be rewarding to review the history of technological transformation in countries that are now developed (both market economy and socialist countries). Many factors should be considered in any evaluation of the technological experience of industrialized countries in the last 100 years, such as: the second industrial revolution, emergence of science-based industries, advances in nuclear energy, space programmes, technological changes in transport and communications, and even the role of wars and military expenditures. They are of fundamental importance in the study of the technological transformation of developed countries.

10. It is possible, however, to consider in some detail one central aspect of technological transformation, namely, its reflection in the economic growth of these countries. This has been the subject of very wide and detailed consideration.[3] Experience has varied from country to country and over time. Many specific factors have influenced the growth of a given country, and this divergent national experience cannot be applied blindly to the developing countries. Nevertheless, in the technological transformation that has taken place in the last 100 years or so in the countries that are now developed a number of features stand out which can serve as points of reference for developing countries. This chapter briefly reviews some of them.

A. The technological setting in 1875

11. Going back to the technological setting in 1875, it may be seen that textiles, coal mining and railway transport were the pacesetters in the introduction of new technology since the beginning of the industrial revolution. The Singer sewing machine had been available since 1851; the bicycle was known, but without ball bearings (1877) or pneumatic tyres (1888). Bell had not yet invented the telephone. Karl Benz was still struggling with the model of his motorized tricycle, which was to run at 7 miles per hour in 1878.[4] Edison's carbon filament incandescent lamp (1879) was as yet four years away and the electric static generator (1880), five years away. Gottlieb Daimler's lightweight high-speed petrol engine was to be invented in 1885 and the alternating current electric motor in 1888.

12. Gilchrist and Thomas had just invented the process of extracting phosphorous from low-grade iron ores, but output of steel, the prime metal for all moving parts of machines, was about 1 million tons. Nearly 90 per cent of all energy used in those countries in 1875 came from the muscles of men and animals. Except in textiles, coal mining and railways, the world stage was empty of the technological actors who were to occupy it in the following 100 years.

13. Even the most advanced of European capitals in 1875 were bereft to the technological equipment now to be found in the capitals of all developing countries, even the least developed among them. The incorporation of technological change in the production system of the countries that are now developed could thus not have taken place on any significant scale prior to 1875. Indeed, in that year the diesel motor, the electric generator and motor, and the major innovations in chemistry, had not even left the inventors' drawing boards. The individual inventor—the fountainhead of all innovations in 1875—had not yet been replaced by organized laboratories exclusively devoted to research and development with a view to extending the frontiers of technological development.[5]

B. The sweep of technological transformation since 1875

1. *Problems of measurement*

14. Technological development can be measured by the number of inventions and innovations reflected, for example, in patent statistics, or by expenditure on research and development or the number of persons engaged therein. But there have always been gaps, in terms of time and space, between the appearance of inventions and their introduction in the production process. Only when an invention or an innovation has begun to be produced on any scale can it be said that the technology has been incorporated in the economic system itself. In that case, it is through changes in productivity that the degree of the technological transformation can be assessed.

15. Complex problems arise in measuring productivity change itself, particularly in the service sector. To assess the extent of incorporation of technological change in the economic system, the rise in real *per capita* national output can be used as a rough and ready indicator.[6]

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[3] For the most outstanding work on the subject, see S. Kuznets, *Six Lectures on Economic Growth* (Glencoe, Ill., The Free Press, 1959). See also the detailed substantiation of his pioneering ideas in *Modern Economic Growth: Rate, Structure and Spread* (New Haven, Conn., Yale University Press, 1966). His findings, with some adjustment and rearrangement, form the basis of much of the evidence used in sections B and C of this chapter.

[4] By a curious coincidence, the Red Flag Act was to be passed in the United Kingdom in the same year, requiring that every mechanical road vehicle travelling at 4 miles per hour or more should be preceded by a man carrying a red flag.

[5] For details, see D. F. Noble, *America by Design: Science, Technology and the Rise of Corporate Capitalism* (New York, Alfred A. Knopf, 1977).

[6] For a detailed discussion, see Kuznets, *Modern Economic Growth...* (*op. cit*), particularly pp. 74, 75, 160 and 223-234, dealing with the problems involved in measuring labour and capital inputs, criteria for determining the marketed output of various components, and the influence of values of intermediate products and excluded activities on the sum total of national output.

2. *Economic dynamics of technological transformation*

(a) *Growth of real output*

16. The most outstanding feature of the technological transformation of the countries that are now developed was the explosive twentyfold rise in the volume of their total combined output in the 100 years following 1875. Since their population rose from 375 million in 1875 to about 1 billion in 1975, the rise in *per capita* output was smaller—a little over sevenfold.[7]

(b) *Progressive rise in* per capita *rate of growth of output*

17. Measured in terms of annual rates of growth, total real output grew at 3 per cent, *per capita* output at 2 per cent and population at under 1 per cent. The dynamics of the technological change of the countries that are now developed were thus rather modest compared with recent experience. But compounded over a century, they bring into full force the effect of what Keynes called "the power of compound interest".[8]

18. However, by grouping together so many diverse countries and considering only two points of time (1875 and 1975), a misleading impression is given of growth rates. Different countries entered the process of technological transformation at different times. The actual rates of growth of the new entrants, as was to be expected, varied over time. Nor was the growth rate of any single country continuously the same for the entire period. One feature, however, stands out: a progressive rise in the *per capita* rate of growth for each new entrant for the period of its technological transformation. That rise was 1.2-1.4 per cent for the United Kingdom and France; 1.6-1.8 per cent for Denmark, Germany, Switzerland, the United States of America and Canada; 2.1-2.8 per cent for Norway, Sweden and Japan; 3-4 per cent or higher, depending upon the estimator, for the Soviet Union, the socialist countries of Eastern Europe and China, as well as for a number of developing countries in recent decades.[9]

19. The progressive rise in the *per capita* rate of growth was related, among other things, to the opportunity of benefiting from the cumulative stock of world technological knowledge. For the pioneer countries, economic growth could not proceed faster than the limits imposed by new additions to the technological stock. New techniques could be applied only as they evolved. The new entrants, on the other hand, did not have to go through the slow process of step-by-step development of each new technology. The later a country began its technological progress, the larger was the stock of technologies it could draw upon and hence the faster its possible rate of growth.[10]

20. While these factors generally applied to the "latecomers" among the now developed countries, their relevance has to be seriously qualified in considering the developing countries, which are beginning their process of development in an altered setting. The international legal and juridical environment has become rigid, favouring developed country interests and imposing heavy constraints on newcomers. The conditions for acquiring foreign technology have become harder. Technology is being imported without the essential technological experimentation and concomitant training that were characteristic of the pioneer industrial countries. In consequence, even when some developing countries have experienced high rates of growth, there has not always been a parallel development of their domestic technological capabilities.[11]

(c) *Size of the technological transformation*

21. If the world economy is viewed as a unit, parts of which have over time succeeded in raising productivity, it can be seen how an increasing proportion of world population has been residing in countries with higher labour productivity. The size of the transformation in the last 100 years could be measured by the estimates that follow.

22. Of the estimated world population of 1,450 million in 1875, less than 10 per cent—or under 150 million persons—resided in countries with a *per capita* income of about $500 at 1975 prices.[12] With the spread of the technological transformation to other countries, this proportion had risen to 45 per cent in 1975, or 1,800 million persons, of a total world population of 4 billion. This means that as much as two thirds of the entire increment in world population was absorbed in countries above the $500 *per capita* income level.

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[7] Real growth in productivity was in fact much higher, since man-hours have declined by 10-40 per cent in these countries since 1875; see Kuznets, *Modern Economic Growth ...* (*op. cit.*), pp. 74 and 75.

[8] See J. M. Keynes, "Economic possibilities for our grandchildren (1930)", in Essays in Persuasion (London, Macmillan, 1931), p. 360. Keynes illustrated this by the probable growth of the treasure of £40,000—the prodigious spoils of the Golden Hind—with which Captain Drake returned to England in 1580. Assuming that it had cumulated at 3.25 per cent per year, every pound would have become £100,000 by 1930. He concluded: "Such is the power of compound interest" (*ibid.*, p. 362).

[9] This idea was already tentatively suggested by Kuznets in his *Modern Economic Growth...* (*op. cit.*), p. 291. See also A. Maddison, *Economic Growth in Japan and the USSR* (London, Allen and Unwin, 1969).

[10] For a comprehensive discussion of the several factors operating to the advantage of latecomers (particularly Germany, Italy and Russia), see A. Gerschenkron, *Economic Backwardness in Historical Perspective* (Cambridge, Mass., The Belknap Press of Harvard University Press, 1962).

[11] See A. O. Hirschman, "The political economy of import-substituting industrialization in Latin America", in *A Bias for Hope: Essays on Development and Latin America* (New Haven, Conn., Yale University Press, 1971), pp. 89-100.

[12] Based on estimates by Kuznets, according to which the following countries that are now developed had reached, in the year shown, a per capita real income level of $200 at 1952-1954 prices (or in the neighbourhood of $500 at 1975 prices):

United States of America	1832	Denmark	1867
Great Britain	1837	Germany	1886
Switzerland	1839	Sweden	1889
Canada	1846	Norway	1891
Netherlands	1847	Italy	1909
France	1852	Japan	1955

See Kuznets, *Six Lectures on Economic Growth* (*op. cit.*), p. 27. In the few cases where available data did not go all the way back to the year indicated, the growth rates for shorter periods were applied for regression. A weighted average and straightline extrapolation in time suggest that the average per capita income (at 1952-1954 prices) in these countries as a group was about $170 by 1850, and only $150 if the United States and the United Kingdom are excluded from the total.

3. *The last 100 years compared with earlier periods*

23. The sevenfold rise in *per capita* output between 1875 and 1975 in countries that are now developed may be compared with 6,000 years of human existence, spread nearly equally in 2,000-year intervals of the Stone, Bronze and Iron Ages. Even at a growth of 1 per cent per decade—in contrast to 2 per cent per year in the last 100 years—*per capita* real output would have expanded 7.2 times in 2,000 years, 52 times in 4,000 years and 380 times in 6,000 years. At this miniscule growth rate of 1 per cent per decade, the real level of *per capita* output 2,000 years ago would have been only one seventh of that of 1875, or a level impossible for human survival. Thus in the period preceding 1875, *per capita* output growth could not have been even as much as 1 per cent per decade.

C. Characteristics of structural change

1. *Changes in the relative shares of agriculture and industry*

24. The technological transformation of the countries that are now developed was associated with broad changes in the structure of output. Up to 1875 agriculture accounted for about one half of total output,[13] and industry for about one fifth. The transformation involved a complete reversal of this proportion: by 1975,[14] the share of industry had risen to about one half and that of agriculture had fallen below one tenth. The relative annual growth rates of these two sectors spread over this whole period were 1.4 per cent for agriculture and 4 per cent for industry, or a ratio of about 1:3. Thus, over a period of 100 years, agricultural output rose four times and industrial output over 50 times. The contribution of agricultural growth to the rise in total real output was less than one tenth; the technological transformation of agriculture led not so much to a big rise in total output as (and mainly) to a rise in productivity per man. In consequence, the work force in agriculture fell sharply.

2. *Structure of industrial output*

25. Industrial output, consisting of mining, manufacturing, electric power, gas and water, is destined for (*a*) direct consumption and (*b*) inputs for the production of other goods (intermediate products) or of instruments for the production of intermediate products and products for final consumption. These two broad divisions have been called by various names: capital goods or producer goods on the one hand, and consumer goods on the other.

26. Clearly, as industrial development proceeds through increasing division of labour, the share of products directly destined for consumption diminishes and that of producer goods correspondingly rises. The ratios between the rates of growth of these two sectors in different countries over different periods of time have varied. Notwithstanding these differences, rates of growth of the producer goods industry have been from 1.3 to over two times higher than those of the consumer goods sector. In consequence, the share of the consumer goods sector has declined from about two thirds or more of total industrial output to less than one third.[15] The reversal of the relative shares of consumer and producer goods has been a common feature of industrial transformation in nearly all the countries that are now developed.

3. *Changes in the geographical distribution of world industrial output*

27. The very notion of spread of technological transformation means that other countries have joined in the stream. In consequence, the concentration of industrial output (including mining, manufacturing, construction, electricity, gas and water supply) among the early starters may be expected to diminish (see table 1).

TABLE 1

Estimated percentage distribution of world industrial output,[a] 1875-1975

	Developed market economy countries	*Socialist countries of Eastern Europe*	*Developing countries*
1875	96	3	1
1900	95	4	1
1953	70	20	10[b]
1975	53	30	17[b]

Sources : W. G. Hoffmann, *The Growth of Industrial Economies* (New York, Oceana Publications, 1958); League of Nations, *Industrialization and Foreign Trade* (Sales No. 1945.II.A.10); S. J. Patel, "Rates of industrial growth in the last century, 1860-1958", in *Economic Development and Structural Change* (Chicago, Ill.), vol. IX, No. 3, April 1961, p. 316; United Nations, *Monthly Statistical Bulletin* and *Statistical Yearbook*.

[a] The geographical and industrial coverage of this table is larger than that used for the target set in the Lima Action Plan.

[b] Including Yugoslavia and Romania and estimated output for the socialist countries of Asia (China, Democratic People's Republic of Korea and Viet Nam, assumed to equal per capita industrial output in developing countries).

28. Up to the end of the 19th century the countries now regarded as developed market-economy countries accounted for over 95 per cent of world industrial output.

[13] For broad indicators, see Kuznets, *Modern Economic Growth* ... (*op. cit.*), pp. 88-90.

[14] Output of transport and communications, banking, insurance and other services closely associated with the industrial sector generally moves in line with the output of industry—a factor that explains the considerable rise in the share of the service sector in total output.

[15] This pattern of growth, however, is not restricted to the major industrialized countries only. As W. Hoffmann has shown by an analysis of changes in industrial structure over time, it applies to small industrialized countries also. He defines three basic stages in industrial growth in accordance with the changes in the ratio of the volume of consumer goods output to that of producer goods output: in the first stage, the ratio is 5(±):1, in the second, 2.5(±):1, and in the third, 1(±0.5):1. The ratio in the fourth stage is still lower. See W. G. Hoffmann, *The Growth of Industrial Economies* (New York, Oceana Publications, 1958), pp. 2 and 3, and chap. IV., p. 173; see also S. J. Patel, "Rates of industrial growth in the last century, 1860-1958", in *Economic Development and Cultural Change* (Chicago, Ill.), vol. IX, No. 3, April 1961, p. 316.

One hundred years later, there was a sharp change in the distribution of world industrial output. For instance, in 1975 the share of the socialist countries of Eastern Europe has risen to 30 per cent and that of the developing countries (including estimates for the socialist countries of Asia, Romania and Yugoslavia) to 17 per cent.

D. Motive forces of technological transformation

29. The technological transformation of the now developed countries was based upon domestic efforts to imitate, import, adapt, develop and create technology. These countries thereby succeeded in creating the national capacity to master and develop modern technologies, although wide differences exist between large technological powers, particularly between the United States of America and the other developed countries.

30. As is well known, technology is embodied in instruments of production, i.e. capital goods, and in skills acquired by human beings. Examining historical evidence about the factors that have contributed to the economic growth of nations, Kuznets concludes significantly:

> The inescapable conclusion is that the direct contribution of man-hours and capital accumulation would hardly account for more than a tenth of the rate of growth in *per capita* product–and probably less. The large remainder must be assigned to an increase in efficiency in the productive resources–a rise in output per unit of input, due either to the improved quality of the resources, or to the effects of changing arrangements, or to the impact of technological change, or to all three.[16]

31. It would seem that two types of technology have in fact to be taken into consideration in understanding the growth process: physical technology embodied in the instruments for producing goods and services, and technology embodied in skills. The social technology–skills, including structural and organizational aspects of society–determines the interaction between these two types of technology as well as the forms in which the tools of the entire production system are generated and used by the work force. Each of these two types of technology is thus broadly related on the one hand to capital formation, and on the other to skill formation.

1. *Gross capital formation*

32. The economic literature is replete with discussion of capital formation, or investments, and the subject is taken up here very briefly, focusing on only one of its features: change over time.[17] The share of gross capital formation in total national output in the countries that are now developed rose from 10-12 per cent in about 1875 to over 20 per cent in 1975. With a twentyfold rise in real national output during that period, this would imply roughly a fortyfold expansion in the real volume of capital formation,[18] with an annual growth rate of about 3.8 per cent. It is worthy of note that the share of gross capital formation in national output in the developing countries has also risen, from about one eighth in 1950 to nearly one fifth in 1975.

2. *Skill formation, or investment in human resources*

33. The measurement of capital formation, as practised by economists and statisticians since the First World War, has excluded current expenditures on health, education and recreation, which in fact directly contribute to improvement in skills and social technology. If these current expenditures are also considered as investments, total investment outlays in these sectors in the United States of America, for example, may well have amounted in 1956 to 40 per cent of total gross investment.[19] For a better appreciation of the contribution of technology to growth, it is desirable that these figures be taken into full consideration. Among them, investment in skill formation obviously plays the most critical role.

34. Education up to about 1875 in most of the developed countries was still non-secular, and limited to a small proportion of the population of school age. Higher education was available only to the élite, and limited mainly to theology, law and medicine. Some examples are given in the following paragraphs.

35. During the 1870s, only 4-5 per cent of the total population of the United Kingdom attended primary school; the corresponding proportion in the developing countries in 1975 was 12 per cent. The most rapid increase in school attendance in the United Kingdom took place between 1870 and 1880.

36. The expansion in secondary and higher education was to follow much later, particularly after 1900. The number of students enrolled in secondary schools in the United Kingdom was 2.9 per 1,000 of population in 1904, and in Japan it was 3 per 1,000 of population in 1900. The average for developed countries rose to about 85 per 1,000 in 1974-1975, compared with an average of 35 per 1,000 in the developing countries (excluding China).

37. The spread of third-level education (universities and institutes of higher learning) in the developed countries was to come even later than that of secondary education. Thus only 52,000 students, or 1 per 1,000 of population, were enrolled in institutes of higher learning in the United States of America in 1870, a proportion that rose to about 4 per 1,000 in 1900 and 48 per 1,000 in 1975. The corresponding levels in northern, western and central Europe (below 3 per 1,000 in 1900), Japan (0.5 in 1900) and Russia (0.8 in 1914-1915) were much lower. They have now risen to over 25 per 1,000 for all the countries now considered developed. It may be added for comparative purposes that this ratio now stands at about 4 per 1,000 of population in the developing countries.[20]

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[16] *Modern Economic Growth ... (op. cit.)*, pp. 80 and 81.

[17] *Ibid.*, pp. 222-242.

[18] This is not to imply that capital as an "independent" factor of production can be satisfactorily measured. See P. Sraffa, *Production of Commodities by Means of Commodities: Prelude to a Critique of Economic Theory* (London, Cambridge University Press, 1960), and J. Robinson, *The Accumulation of Capital* (London, Macmillan, 1956).

[19] See Kuznets, *Modern Economic Growth ... (op. cit.)*, p. 228. These expenditures in the developing countries as a group also amount to about 40 per cent of gross capital formation. The case for adding these "investments in man" to capital formation is particularly strong in the developing countries.

[20] For detailed estimates, see the study by the UNCTAD secretariat, *Co-operative exchange of skills among developing countries: policies for collective self-reliance in skilled manpower* (United Nations publication, Sales No. E.79.II.D.1), chap. II, para. 18 and table.

3. *Role of the State*

38. The activities of the governments of the developed countries in 1875 were confined mainly to making war and signing peace treaties, and collecting taxes for running limited administrative services. Strong central government was not considered desirable. In sharp contrast, the public sector in even the developed market-economy countries has now come to account for over one third of the flow of national output.

39. Particularly prominent was the role of the State as an engine of economic expansion in some of the most important late starters among the developed countries, for instance, the Soviet Union and other socialist countries of Eastern Europe, as well as Japan.[21] Even in countries where the government did not play any direct role in planning the economy, its contribution through financial and administrative assistance to the improvement of the infrastructure was central to the development of social technology, and thus furthered technological transformation. It may be added that in most developing countries some form of planning has now been adopted as an instrument of accelerated economic and social development.

CHAPTER II

Technological changes in developing countries since the Second World War[22]

40. The period 1950-1975 was a golden age of growth for the international community. Both developed and developing countries attained economic growth rates—or technological absorption—far in excess of those achieved in any other comparable period since the industrial revolution. The trend was even more pronounced for the developing countries, most of which emerged from colonial dependence during this period. For the first time, and in a vastly altered world, they began to take steps to achieve their economic and social transition to modernization as rapidly as possible.

41. This chapter reviews broadly the nature and the degree of the change attained in the developing countries since 1950. The data base for such a review is inadequate, particularly if an idea is to be given of the period as a whole and of individual developing countries, covering all aspects of their development. The review therefore concentrates on pinpointing the broad sweep of change, often using only indicative data. Only a more systematic effort, which the UNCTAD secretariat intends to make at a later stage, can present a comprehensive picture. In the mean time, it is hoped that this preliminary presentation will help to create a conceptual framework within which the problems of the technological transformation of the developing countries in the period ahead can be properly assessed. Only then can a beginning be made in assessing the real causes of the change and the nature of future constraints.

42. The chapter begins with a summary presentation of the scale, spread and structure of economic change in these countries. In a limited sense, the presentation parallels the main thrust of the first chapter. It is followed by a somewhat closer look at the main elements in building up the technological capacity of these countries, including reference, by way of illustration, to a few technological indicators.

A. Main elements of technological change in developing countries, 1950-1975

1. *Pace of technological transition*

43. Technological transition is characterized by the diffusion of knowledge of the productive process, resulting in increased output of goods for final consumption. A more precise indicator would be the change in output per head of population. Between 1950 and 1975, the total real output of developing countries tripled or quadrupled, rising at a rate of 5 per cent per year.[23] This growth rate was nearly five times as high as that for the first half of the 20th century and higher than even the historical growth rate in the developed countries (see paras. 16 and 17 above).

44. At the same time, there was a market success in reducing death rates, particularly through control of infant mortality. Population growth therefore accelerated—to a rate of about 2.5 per cent per year—with the result that *per capita* output grew slowly, by 2.5 per cent per year. In sharp contrast, this *per capita* growth rate could not have been more than 0.5 per cent in the 25 years preceding 1950.[24]

45. Obviously, in a group comprising some 103 countries varying widely in size, level of development and output, natural resource endowment, year of obtaining independence and type of economic, social and political policies pursued, there are bound to be differences in the ability to incorporate technological knowledge in the productive system. Some of the relevant data are shown in table 2.

46. As may be seen from that table, in some 64 countries, accounting for over $300 *per capita* output in 1975 and for 39 per cent of the total population of developing countries, the growth rate of GDP averaged 6.2 per cent per year between 1960 and 1975. Their *per capita*

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[21] For Japan, see the study by the UNCTAD secretariat, "Policies for transfer and development of technology in pre-war Japan (1868-1937)" (TD/B/C.6/26), April 1978.

[22] Owing to limitations of data, the discussion in this chapter generally leaves out the socialist developing countries of Asia (China, Democratic Kampuchea, Democratic People's Republic of Korea, Mongolia and Viet Nam). The changes that have taken place in those countries appear to have been even more pronounced than those in the developing countries considered in this chapter.

[23] The rate sustained for these 25 years was indeed higher than most economists and planners considered possible in the early 1950s. Arthur Lewis, for example, after noting that some development plans set targets of economic growth at over 4 per cent per year, stated: "but 4 per cent is so difficult to attain that it is really quite an ambitious target". See W. A. Lewis, "Some reflections on economic development", *Economic Digest* (Karachi), vol. 3, No. 4, winter 1960, p. 3.

[24] The rate may have been even lower; see the study by the UNCTAD secretariat, *Energy supplies for developing countries: issues in transfer and development of technology* (United Nations publication, Sales No. E.80.II.D.3), annex A, table A-2.

TABLE 2

Selected indicators of change in developing countries, 1960-1975

	Number of countries	*Population 1975* Number (millions)	*Population 1975* Share of total (percentage)	*Gross domestic product 1975* Total (billion dollars)	*Gross domestic product 1975* Per capita (dollars)	*Annual growth rate of GDP 1960-1975 (percentage)* Total	*Annual growth rate of GDP 1960-1975 (percentage)* Per capita
Developing countries with per capita income in 1975:							
1. Over $800	26	324	17	474	1 465	6.4	3.6
2. Between $300 and $800	38	416	22	210	506	5.8	3.0
Subtotal (1 + 2)	64	740	39	684	923	6.2	3.4
3. Below $300	39	1 161	61	186	160	3.6	1.3
of which: India, Indonesia, Pakistan, Bangladesh	4	881	76	140	158	3.8	1.5
Others	35	280	24	46	166	3.2	0.7
Total developing countries	103	1 901	100	870	458	5.5	3.0
Total developed market economy countries	28	795	100	4 079	5 140	4.3	3.4

Source: UNCTAD, *Handbook of International Trade and Development Statistics. Supplement 1977* (United Nations publication, Sales No. E/F.78.II.D.1), supplemented by data appearing in *Handbook of International Trade..., 1979* (United Nations publication, Sales No E/F.79.II.D.2).

output rose by 3.4 per cent annually. On the other hand, in the other 39 countries, with just over three fifths of the total population of developing countries, expansion was much smaller, their total real output increasing by 3.6 per cent per year, and *per capita* output by only 1.3 per cent. This group includes most of those that may be considered as confronted with the hard core of the development problem. Among them are some of the largest countries in Asia and most of the least developed among the developing countries.

2. *Changes in origin of output by major sectors*

47. The structure of output changed only marginally in the developing countries in the 100 years or so preceding 1950. Since then, the changes have been rather marked for the group as a whole. As shown in table 3, the most important structural change took place in the relative shares of agriculture and industry and related activities. The share of agriculture in GDP fell from 37 per cent in 1950 to 22 per cent in 1975, and that of industry (including mining, manufacturing, electricity and gas, construction, and transport and communications)[25] rose from 26 per cent to 39 per cent—a near reversal of relative positions. In comparison, the share of the service sector remained relatively constant, at 37-39 per cent. Changes in the sectoral composition of employment were in the same direction, although less pronounced.[26]

48. The reversal of the shares of agriculture and industry followed from differences in their growth rates during the period 1960-1975: industrial output expanded by 7 per cent per year, with a rise in employment of 4.4 per cent and an implicit rise in productivity of 2.6 per cent. The corresponding growth rates for agriculture were lower: 2.7 per cent, 1.3 per cent and 1.4 per cent respectively.[27]

49. As in the case of overall output growth, there were significant variations among countries in the extent of the shift from agriculture to industry. In developing countries with *per capita* annual incomes of over $800, the shift was much greater than in those with lower incomes. For instance, the share of agriculture in the first group had fallen by 1975 to 10-15 per cent, whereas in the other two income groups with *per capita* incomes below $800 it remained as high as 25-40 per cent. The important point to note, however, is that in 50 developing countries the share of agriculture had fallen to just over 10 per cent, or the level prevailing in most developed market economy countries (other than the United States of America and the

[25] Output in the transport and communication sector tends to rise in line with industrial output and has therefore been included in industrial output in table 3 for analytical convenience.

[26] Employment in agriculture fell from 71 per cent in 1960 to 63 per cent in 1970 and rose in industry from 9 per cent in 1950 to 14 per cent in 1970; see ILO, *Labour force estimates and projections, 1950-2000*, vol. V, *World summary* (Geneva, 1977).

[27] These growth rates for total output in industry and agriculture (although not for productivity) in developing countries were greater than for the developed market economy countries.

TABLE 3

Changes in the shares of major sectors in output in developing countries 1950-1975[a]

(Percentage)

	Agriculture[b]	*Industry*[c]	*Services*[d]
Developing countries			
1950	36.8	26.4	36.8
1955	34.2	28.8	37.0
1960	33.0	31.9	35.1
1965	27.6	34.5	37.9
1970	25.3	37.0	37.7
1975	22.1	38.7	39.2
Developed market economy countries			
1950	7.3	42.8	49.9
1955	6.7	44.5	48.8
1960	6.2	44.1	49.7
1965	5.2	45.9	48.9
1970	4.6	46.7	48.7
1975	4.5	45.1	50.4

Sources: Statistical Yearbook 1968 (United Nations publication, Sales No. E/F.69.XVII.1) and *Statistical Yearbook 1976* (United Nations publication, Sales No. E/F.77.XVII.1).

[a] The shares of different sectors in total output were estimated on the basis of sectoral weights used for the construction of GDP indices for the two groups of countries and subgroups thereof. The sectoral GDP indices were used to bring these weights up to the years mentioned. All the relevant data were taken from the above sources.

[b] Comprises ISIC major division 1 (agriculture, hunting, forestry and fishing).

[c] Comprises ISIC major divisions 2-5 (mining and quarrying, manufacturing, electricity, gas and water, and construction) and 7 (transport, storage and communication).

[d] Comprises ISIC major divisions 6 (wholesale and retail trade) and 8 and 9 (financing, insurance, real estate and business services, and community, social and personal services).

United Kingdom) in the mid-1950s, and in all the socialist countries of Eastern Europe in the mid-1960s.

50. The differences in degree of structural change in these two broad groups of countries—with *per capita* incomes of over and under $800 respectively—derived primarily from the varying rates of growth in industry. The rate of agricultural growth in both groups was much the same, ranging from 2 per cent to 3 per cent for the period 1960-1975. Much greater differences are to be noted in the expansion of industrial output. To illustrate, in the absence of comprehensive data: the former group included a number of countries with an annual industrial growth of over 10 per cent, notably the Republic of Korea (22.5 per cent), Iran (15.7 per cent), Singapore (15.3 per cent) and Brazil (11 per cent), whereas industrial growth in most of the countries in the latter group was less than 5 per cent per annum.

B. Structural transformation of industry

51. The rapid growth of industrial output in the developing countries was accompanied by a drastic change in the structure of their industry, as shown in table 4. The most striking feature of the industrial structure of the developing countries in 1975 was the large share of mining in total industrial output—nearly one fifth. Slightly less than one third of the world's mineral output is produced in the developing countries, which export most of it, often in wholly unprocessed or semi-processed form, to the developed countries. Here is obviously an area where a big gap remains to be filled in beginning the processing of mineral output and moving on to the manufacture of mineral-based products.

52. An examination of the structure of industrial output in the developed market economy countries and the socialist countries of Eastern Europe shows that a broad measure of similarity exists between them. Capital goods account for roughly one half of the total, their share being slightly higher in the socialist countries. Intermediate goods production accounts for slightly less than 20 per cent in both. Broad similarities are visible even when individual subsectors are compared.

53. The structure in the developing countries is sharply different. Consumer goods industries still continue to account for nearly one half of industrial output, although this proportion declined considerably in the 15 years from 1960 to 1975. The greatest weakness in their industrial structure remains in the capital goods sector, or the materials in which advanced technology is embodied, and which form the basis for raising the productivity of the work force. It should be noted, however, that a quite significant change occurred in the relative share of metal products: from 17 per cent in 1960 to 23 per cent in 1975.

C. Building up the technological capacity of developing countries

54. The central economic difference that distinguishes pre-Stone Age man from any other in succeeding ages lies in the capacity to produce goods and services. This capacity is embodied in the tools and instruments and acquired skills with which he participates in the production process. While the ancient history of Africa, Asia and Latin America abounds with examples of highly developed civilizations, the vast changes, partly described in chapter I, which revolutionized the process of production in the developed countries, simply by-passed the third world. Except for a few countries, and even then in only isolated segments and on a small scale, both these embodiments of technology—skills and tools—were largely absent in the third world. Whatever little embodied technology was used in developing countries was imported from the metropolitan countries. Productivity per person increased only marginally, if at all, up to the mid-1950s.

55. In the period 1950-1975, a beginning was made in filling this gap. Detailed information on this subject is scanty, but an attempt is made here to give an impression of the changes that have taken place in the ratio and volume of capital formation, imports and domestic manufacture of capital goods, skill formation and expenditure and manpower devoted to research and development.

1. *Changes in capital formation and domestic savings*

56. In the early 1950s, gross domestic capital formation as a proportion of GDP in developing countries was only 10-12 per cent. As these countries achieved independence and adopted planning as an instrument of policy, there was a considerable increase in this share. Thus in 1960 there were only 10 developing countries in which it was above 20

TABLE 4

Structure of industrial output in developing countries, developed market economy countries and socialist countries of Eastern Europe, 1960 and 1975

(Percentage)

Branch of activity	*ISIC code*	*Developing countries* 1960	1975	*Developed market-economy countries* 1960	1975	*Socialist countries of Eastern Europe* 1960	1975
All industry	2-4	100	100	100	100	100	100
of which:							
Mining and quarrying	2	25	19	7	4	8	7
Electricity, gas and water	4	4	7	5	8	4	3
Manufacturing	3	71	74	88	88	88	90
of which (as percentage of total manufacturing output):							
(*a*) Consumer goods	31-34,39	57	46	39	32	40	28
Food, beverages and tobacco	31	23	8	12	11	14	12
Textiles, wearing apparel, leather	32	18	17	9	8	12	8
Wood products and furniture	33	6	3	4	4	7	3
Paper, printing and publishing	34	2	5	4	7	1	1
Other	39	8	13	10	2	6	4
(*b*) Intermediate goods	35-36	19	24	15	19	17	17
Chemicals, petrochemical and coal products, and rubber products	35	14	19	11	15	9	11
Non-metallic mineral products	36	5	5	4	4	8	6
(*c*) Capital goods	37-38	25	29	45	48	44	55
Basic metals	37	8	6	8	7	9	7
Metal products	38	17	23	37	41	35	48

Sources: Statistical Yearbook 1966 (United Nations publication, Sales No. E/F.67.XVII.1); *Statistical Yearbook 1977* (United Nations publication, Sales No. E/F.78.XVII.1).

Note: The proportions of different branches in total industrial output were estimated on the basis of sectoral weights used for the construction of regional production indices. The 1958 weights were brought up to 1960 and the 1970 weights up to 1975 using sectoral production indices. Components may not add up to 100 because of rounding.

per cent, whereas by 1975 there were 46;[28] in the developing countries as a whole it was about 20 per cent in the period 1970-1975 (table 5), or nearly the same as in the developed market economy countries. Gross domestic capital formation, at over $170 billion in 1975, was some six times higher in real terms than 25 years previously.

57. The share of gross capital formation varies, of course, from country to country. As shown in table 5, it was much higher (21-23 per cent) in developing countries with a *per capita* GNP of more than $300 in 1975 than in those below that level, where it was about 17 per cent. It is striking indeed that most of the capital formation was financed from gross domestic savings, with external resources contributing less than one fifth of the total even for those with a *per capita* GNP of less than $300.

2. *Imports and domestic manufacture of capital goods*

58. The data on gross capital formation give only a rough impression of the changes that have taken place, since they include construction (involving inputs of intermediate products and labour), inputs of intermediate products, capital goods (means of production) and skills. If the technological capacity of a country is to be assessed, a much greater role has to be assigned to the means of production needed for translating the general concept of technology as "capability" into actual "capacity" to produce goods. It is really the balance between import dependence for capital goods and domestic capability to produce them that can serve as the critical indicator for this purpose.

59. The value of imports of machinery and transport equipment by developing countries (SITC section 7) increased by 13 per cent per year between 1955 and 1975. Deflating by the index of the unit value of exports of manufactured goods from developed market economy countries, this implies a sixfold increase in volume, or an annual rate of 9.4 per cent.

[28] According to the *Statistical Yearbook 1977* (United Nations publication, Sales No. E/F.78.XVII.1), these countries were: *Africa*—Algeria, Botswana, Egypt, Gabon, Guinea, Ivory Coast, Kenya, Liberia, Libyan Arab Jamahiriya, Mauritania, Mauritius, Morocco, Nigeria, Tunisia, United Republic of Tanzania, Upper Volta, Zaire, Zambia; *Asia*—Hong Kong, Iran, Iraq, Jordan, Lebanon, Oman, Philippines, Republic of Korea, Saudi Arabia, Singapore, Syrian Arab Republic, Thailand; *Latin America*—Argentina, Barbados, Brazil, Costa Rica, Ecuador, El Salvador, Guatemala, Guyana, Honduras, Martinique, Mexico, Panama, Paraguay, Venezuela; *other*—Malta, Tonga.

TABLE 5

Gross domestic capital formation, gross domestic savings and external resources in developing countries, 1970-1975

(Percentage of GNP)[a]

	Gross domestic capital formation	*Gross domestic savings*	*External resources*[b]
Developing countries with a per capita GNP in 1975:			
Over $800	22.8	24.4	−1.6
$300-$800	21.0	17.5	3.5
Under $300	16.7	13.7	3.0
Developing countries as a whole	20.8	20.0	0.8

Source: "Domestic savings in developing countries: note by the UNCTAD secretariat" (TD/B/C.3/153), October 1978, table 1 (UNCTAD secretariat estimates, based on United Nations and other international sources).

[a] For some countries for which GNP figures were not available, GDP figures have been used instead.

[b] External resources are the net inflows of resources (i.e. excess of imports over exports of goods and services, including factor income payments). Gross domestic savings plus these net inflows constitute the total supply of savings, which are equal to gross domestic capital formation.

60. The rapid increase in imports of capital goods was accompanied by an equal, if not more rapid, increase in the domestic manufacture of these goods. If value added is taken as an indicator of the latter activities, domestic manufacture of capital goods–basic metals (ISIC 37) and metal products (ISIC 38)–grew at an annual rate (in real terms) of slightly more than 10 per cent during the period 1960-1975. Changes in the ratio of imports to domestic manufacture of capital goods (SITC 7), calculated on the basis of current prices, may be taken as a rough indicator of changes in the degree of dependence of developing countries on imports for the supply of capital goods. This ratio decreased slightly, from 1.4 to 1.3, between 1960 and 1970, and then increased to 1.5 in 1975.[29] If the value added in metal products manufacture (ISIC 38) alone is taken as an index of capital goods production, the ratio declines from 2.0 in 1960 to 1.7 in 1970, followed by an increase to 1.9 in 1975. The picture given by these ratios is not very conclusive. It is probable that the increase in the ratios between 1970 and 1975 resulted on the one hand from the rise in prices of capital goods imported by the developing countries owing to inflation and, on the other hand, from reduced domestic manufacture in the developing countries reflecting the global economic difficulties of the 1970s. However, a detailed study would be required to determine the impact of the global economic situation in the 1970s on the development of capital goods industries in the developing countries. The ratios none the less serve to show that for the period 1960-1975 as a whole domestic manufacture of capital goods was increasing, or at least keeping pace with imports of these goods.

61. The type of capital goods imported by a particular developing country depended to a large extent on its capacity to produce them domestically. In the relatively more industrialized developing countries, where such capacity had been built up, imports of capital goods consisted largely of those embodying sophisticated technology. In the less industrialized countries, where there was some, but less, capacity for capital goods manufacture, attempts were made to undertake an increasing proportion of assembly work on standardized capital goods on the basis of imported components, while at the same time relying on imports of a wide variety of fully assembled capital goods with a large technological content. In the least industrialized countries, imports in fully assembled form were practically the only means of introducing capital goods in domestic production activities, and this, quite often, through reliance on the inflow of external capital.

62. Table 6 provides an overview of capital goods manufacture in selected developing countries and a comparison with the situation in some developed countries. It is evident from the table that, first, capital goods manufacture already accounted for an important share of manufacturing output in a number of developing countries. The share in terms of value added in 1974 was already above 30 per cent in Chile, Mexico, India and Brazil, and in six other countries (Iran, Turkey, Venezuela, Peru, Republic of Korea and Egypt) it was above 20 per cent. The ratio of value added in capital goods production to that in consumer goods production was closely correlated to the share of capital goods production in total value added in manufacturing. For Chile, Mexico, India and Brazil, this ratio reached the level of that of some developed countries.

63. Secondly, the growth of capital goods production in the developing countries was considerable. As may be seen from table 6, the annual growth rate of value added in capital goods production (in real terms) for all but a few developing countries was either equal to or more rapid than in the developed countries, except Japan. In a number of developing countries with a relatively high share of capital goods production in manufacturing, such as Brazil, Iran, Peru and the Republic of Korea, the growth rate for the 1965-1974 period was even more rapid than in Japan. It is also worthy of note that a number of developing countries with a relatively small share of capital goods production, such as Tunisia, Bangladesh, Ecuador, United Republic of Tanzania, Malawi and Libyan Arab Jamahiriya, recorded a relatively high growth rate, although needless to say that was partly a reflection of a late start, from a low base.

64. The expansion of domestic capacity to manufacture capital goods in developing countries has far-reaching implications. First, it strengthens the scope not only for "reproducing" domestically the technology that is imported from abroad in embodied form but also, and perhaps more important, for producing the technology that is most suited to the specific needs of these countries. Secondly, it broadens the options open to planners and policy-makers in these countries in planning and managing investment activities, allowing the possibility for foreign exchange constraint on the overall investment programme Thirdly, the development of capital goods production capacity in developing countries has in fact increased the scope for trade in these goods among the developing countries themselves.[30]

[29] The ratios were calculated on the basis of unpublished data of the Statistical Office of the United Nations on the value added in developing countries.

[30] See *Trade in manufactures of developing countries and territories, 1977 review* (United Nations publication, Sales No. E.80.II.D.2), Part One: "Recent trends and developments in trade in manufactures and semi-manufactures of developing countries and territories", chap. II, sect. 2.

TABLE 6

Indicators of capital goods production in selected countries, 1974

	Value added in capital goods production[a]		
	Share in total manufacturing (Percentage)	*Ratio to consumer goods production*[b]	*Annual growth rate (in real terms)*[c] *1965-1974 (Percentage)*
Developed countries			
Czechoslovakia	50.4	1.92	7.6
Germany, Federal Republic of	47.0	2.58	3.8
Japan	45.5	1.65	14.0
Sweden	42.3	1.40	5.3
Italy	40.9	1.54	6.0
United States of America	39.2	1.16	3.2
United Kingdom	37.2	1.10	1.0
Developing countries			
Chile	45.2	1.24	0.1
Mexico	33.9	0.99	10.2
India	32.7	0.87	2.7
Brazil	31.9	0.84	15.5
Iran	27.8	0.61	30.0
Turkey	24.6	0.65	7.0[d]
Venezuela	23.9	0.57	7.5
Peru	22.6	0.43	15.5
Republic of Korea	21.5	0.42	32.0
Egypt	20.2	0.33	6.2
Colombia	17.1	0.34	7.0[d]
Malaysia (peninsular)[e]	16.9	0.39	23.9
Nigeria	15.7	0.26	30.9[d]
Zambia[e]	15.0	0.28	14.0
Indonesia[e]	14.6	0.20	43.8
Ghana[f]	14.3	0.30	1.7
Philippines	13.7	0.25	1.8
Tunisia[e]	12.8	0.25	13.5
Mozambique[e]	12.3	0.20	4.6
Bangladesh	11.1	0.15	22.0[d]
Ecuador	10.8	0.16	24.0
Jamaica	10.7	0.18	–
United Republic of Tanzania[e]	10.4	0.17	21.5
Zaire	10.2	0.16	–
Malawi[e]	6.6	0.11	20.3
Libyan Arab Jamahiriya	4.4	0.07	30.1[d]
Dominican Republic	3.2	0.04	10.6[d]

Sources: United Nations, *Yearbook of industrial statistics, 1975 edition*, vol. 1: *General industrial statistics* (United Nations publication, Sales No. E.77.XVII.7).

[a] ISIC 37, 381, 382, 383 (excluding 3832) and 384: basic metal industries, manufacture of fabricated metal products, machinery and equipment (excluding manufacture of radio, television and communication equipment and apparatus and of professional and scientific, and measuring and controlling equipment).

[b] Consumer goods manufacture comprises ISIC 31, 32, 332, 342, 3522, 3832, 385 and 390: manufacture of food, beverages and tobacco, textiles and wearing apparel, manufacture of furniture and fixtures, printing and publishing, manufacture of drugs and medicines, manufacture of radio, television and communication equipment and apparatus, manufacture of professional and scientific and measuring equipment and miscellaneous manufacture.

[c] Except for the countries listed in (i) and (ii) below, the growth rates were calculated on the basic of production indices for different capital goods given in the source which were combined using value added in 1970 as weights; for Venezuela and the Federal Republic of Germany gross output was used as weight:

(i) For Turkey, Colombia, Indonesia, Ghana, Tunisia and the Dominican Republic, growth rates were calculated on the basis of value added in capital goods production, deflated by general wholesale price indices;

(ii) For the Libyan Arab Jamahiriya, Malaysia (peninsular), Nigeria, Zambia, Mozambique, Bangladesh, United Republic of Tanzania, Zaire and Malawi, growth rates were calculated on the basis of value added in capital goods production, deflated by consumer price indices in the absence of appropriate wholesale price indices.

[d] 1970-1974; for Libyan Arab Jamahiriya, 1971-1974.

[e] 1973 for share in total manufacturing and ratio to consumer goods production, and 1970-1973 for growth rate.

[f] 1972 for share in total manufacturing and ratio to consumer goods production, and 1970-1972 for growth rate.

65. Two important qualifications have to be made, however, concerning this rough picture of capital goods manufacture in developing countries. The first is that in some of the relatively more advanced developing countries the development of the capital goods sector relied quite heavily on the financial, technological and managerial input of transnational corporations, through direct foreign investment.[31] The extent to which the participation of these corporations contributed to the strengthening of national capacity varied from country to country. The second qualification relates to the impact of the extensive and wide-ranging manufacture of capital goods on a small scale, characterized by simple repair work on imported machinery, which is not reflected in the published statistics on which the above analysis was based.[32] An in-depth analysis of these questions is needed to provide a more comprehensive and more accurate picture of capital goods manufacture in the developing countries and its contribution to the technological development of those countries.

3. *Skill formation and research and development resources*

66. The building up of the technological capacity of any country starts with education. Developing countries made significant progress in this area in the 25 years under review. Total school enrolment in these countries grew at an annual rate of 5.6 per cent during the period 1960-1974. Particularly significant was the increase in enrolment in universities and institutions of higher education, reaching an annual rate of more than 10 per cent over the same period. As shown in table 7, the size of such enrolment in 1974, involving nearly 8.5 million students, came close to the level of that in the developed countries in the late 1950s. One out of every four students enrolled at the university level in the world is now from a developing country (excluding China and other socialist countries of Asia, for which data are not available).

67. One direct result of the general spread of education has been the improvement in the literacy rate. Although the rate varies widely among different developing countries—for many countries in Africa it is less than 30 per cent, while for Latin American countries it is usually more than 70 per cent—there has nevertheless been a universal improvement, as shown in table 7. For the developing countries as a whole it is estimated to be currently slightly less than 40 per cent, in contrast to about 95 per cent in the developed countries.

68. Improvement in the literacy rate implies the strengthening of the skill base in the broadest sense. A much more direct impact of education on skill formation in the developing countries occurs through improvement in the average level of education attained by the labour force. Table 7 also contains such data for selected developing countries expressed as the proportion of adult population entering schools at the secondary and post-secondary level. For the former, the proportion ranged from about 2 per cent to about 20 per cent, and for the latter from about 0.5 per cent to about 6 per cent, in the more recent period. However, there again, the dominant trend over time has been an improvement, often a doubling or even tripling of the proportion over a decade or so. The picture can also be completed by information on the occupational composition of the labour force. In selected developing countries for which data were available, the proportion of professional, technical and related workers in the total economically active population has tended to rise over time.[33]

69. Skill formation is also closely related to capacity to undertake research and development activities, that is, capacity to adapt and generate technology. Table 8 gives the latest available information on the number of scientists and engineers engaged in research and development in selected developing countries, and establishes a comparison with developed market economy countries and the socialist countries of Eastern Europe. The total size of research and development manpower in developing countries about 1973-1975 was estimated to be roughly one seventh of that in the developed market economy countries and the socialist countries of Eastern Europe: however, per 10,000 of economically active population, the gap widened to more than one fortieth and one eightieth respectively. Research and development manpower (full-time equivalent) per 10,000 of (total) population in individual developing countries, which ranged from 0.2 to 3.9, was much smaller than the corresponding figure in most developed countries, where the ratio was more than 10. However, in a number of developing countries the absolute size of such manpower had reached a significant level in terms of manning requirements for plant, particularly in large countries such as India, Indonesia, Argentina, Brazil, Egypt and the Republic of Korea.

70. Table 8 also contains some data on expenditure on research and development, which may be regarded as a general indicator of the level of activity in that area.[34] A study of the data would suggest that the gap in research and development activity between developed and developing countries was much wider than suggested by the data on scientists and engineers engaged in such activity. Research and development expenditure *per capita* in developing countries was well under 1 per cent of that in developed countries. Expressed in terms of GNP, total expenditure on research and development was estimated to be about 0.3 per cent for developing countries compared with 2 per cent for the developed market economy countries and 4 per cent for the socialist countries of Eastern Europe.

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[31] See *Transnational corporations in world development: a re-examination* (United Nations publication, Sales No. E.78.II.A.5), annex III, tables III-59 to III-63.

[32] See, for example: J. T. Thoburn, "Exports and the Malaysian engineering industry: a case study of backward linkage", *Oxford Bulletin of Economics and Statistics*, vol. 35, No. 2, May 1973; F. C. Child and H. Kaneda, "Links to the Green Revolution: a study of small-scale, agriculturally related industry in the Pakistani Punjab", *Economic Development and Cultural Change* (Chicago, Ill.), vol. 23, No. 2, January 1975; ILO, "Technology diffusion from the formal to the informal sector: the case of the auto-repair industry in Ghana", by A. N. Hakam, working paper WEP 2-22/WP 35, July 1978.

[33] According to data compiled by the UNCTAD secretariat on 26 developing countries on the basis of information contained in ILO, *Year Book of Labour Statistics*, and United Nations, *Demographic Yearbook* (various issues).

[34] It should be remembered that research and development expenditure includes in most cases both capital and current expenditures. The level of research and development activity is in general better reflected in capital expenditures, for obvious reasons. Current expenditures in developed countries tend to push up the total level because of the relatively higher wages and costs of services.

TABLE 7

Selected aspects of educational development in developing countries[a]

Country and year	Literacy rate[b] (Percentage)	Percentage of adult population that entered[c]: Second level	Post-secondary	Year	Number of students enrolled in universities and other institutions of higher education (Thousands)
A. Developed countries[d]					
1960	–	..	..		9 544
1974	95[b]	..	..		24 831
B. Developing countries[e]					
1960	–	..	..		2 112
1974	38[b]	..	..		8 453
Kenya					
1962	20	2.0	0.3	1965	2
1969	24[f]	2.8	0.8	1974	11
Iraq					
1957	14	0.9	0.7	1965	28
1965	24	1.7	0.9	1974	79
Algeria					
1954	19	1.2	0.4	1965	8
1971	26	2.2	0.3	1975	42
India					
1951	20	1.5[g]	0.5[g]	1965	1 054
1971	33	3.9	1.1	1974	2 230
Syrian Arab Republic					
1960	30	1.8	0.5	1965	33
1970	40	4.4	1.1	1974	64
Zambia					
1963	29	1.3	..	1965	–
1969	47	2.0	0.6	1974	5
Indonesia					
1961	39	1.4	0.1	1965	140
1971	57	5.1	0.5	1975	278
Brazil					
1950	49	1.0	0.9	1965	156
1970	66	5.9	2.0	1974	955
Mexico					
1950	57[h]	2.9	1.1	1965	133
1970	74	4.1	2.6	1974	453
Thailand					
1947	52	3.0	0.2	1965	36
1970	79	4.4	1.1	1975	78
Colombia					
1951	62	5.7	0.9	1965	44
1973	81	18.4	3.3	1974	149
Republic of Korea					
1955	77	5.3	1.5	1965	142
1970	88	21.8	5.6	1975	297
Argentina					
1947	86	3.7	1.2	1965	247
1970	93	7.8	4.0	1975	597

Sources: UNCTAD, *Handbook of International Trade and Development Statistics, Supplement 1977* (United Nations publication, Sales No. E/F.78.II.D.1), and UNESCO, *Statistical Yearbook 1976*, (Paris, 1977).

[a] Countries arranged in ascending order of literacy rate in the later year shown.

[b] Unless otherwise stated, the rate refers to population over 15 years of age covered by census or survey. The rates shown for developed and for developing countries as a whole are very rough estimates.

[c] Adult population in most cases refers to those over 25 years of age.

[d] Developed market economy countries (including Israel) and socialist countries of Eastern Europe (including Romania).

[e] Excluding China and other socialist countries of Asia.

[f] Of persons over 25 years of age.

[g] Of all age groups.

[h] Of persons over 6 years of age.

TABLE 8

Scientists and engineers engaged in research and development and expenditures on research and development, 1969-1975[a]

	Scientists and engineers engaged in research and development			*Expenditures on research and development*				
	Period	*Total (Thousands of FTE)[b]*	*Per 10,000 of total population*	*Fiscal year*	*Total ($ million)*	*Per capita ($)*	*Percentage of GNP*	*Annual percentage increase (At current prices)*
A. *Rough totals[c]*								
Developed market economy countries . .	Around 1973-1975	1 390	43[d]	Around 1973-1975	80 900	111	2.0	..
Socialist countries of Eastern Europe	Around 1973-1975	1 440	82[d]	Around 1973-1975	39 400	114	4.0	..
Developing countries[e] .	Around 1973-1975	210	1[d]	Around 1973-1975	1 900	1	0.3	..
B. *Selected developing countries*								
India	1973	97.0[f]	..	1972	256	0.5	0.4	18.1 (1969-1972)
Indonesia	1975	12.2	0.9	1975	47	0.3	0.2	80.5 (1972-1975)
Argentina	1974	8.1	3.2	1974	184	7.4	0.5	26.9 (1968-1974)
Brazil	1974	7.7	0.8	1974	346	3.4	0.4	10.6 (1973-1974)
Egypt	1973	6.9	1.9	1976	85	2.2	0.7	4.1 (1973-1976)
Republic of Korea . . .	1974	6.3	1.9	1976	128	3.6	0.7	20.7 (1969-1976)
Thailand	1974/75	6.1	1.5	1968	14	0.4	0.2	..
Mexico	1974	5.9	1.0	1973	102	1.8	0.2	18.8 (1970-1973)
Philippines	1965	5.6	1.8	1973	32	0.8	0.3	15.1 (1965-1973)
Iran	1972	4.9	1.6	1972	47	1.5	0.2	..
Pakistan	1973/74	4.2	0.6	1973	15	0.2	0.2	..
Ghana	1975	3.9	3.9	1971	21	2.4	0.7	..
Venezuela	1973	2.7	2.6	1973	67	6.0	0.3	43.6 (1970-1973)
Sudan	1974	2.7	1.6	1973	9	0.5	0.3	..
Nigeria	1970/71	2.1	0.4	1970	33	0.6	0.3	11.5 (1966-1970)
Peru	1975	2.1	1.3	1970	25	1.9	0.4	..
Cuba	1969	1.9	2.2	1969	92	11.0	2.2[g]	..
Bangladesh	1973/74	1.6	0.2	1974	24	0.3	0.3	..
Iraq	1974	1.5	1.4	1974	25	2.3	0.2	67.0 (1971-1974)
Colombia	1971	1.1	0.5	1971	10	0.5	0.1	..

Source: UNESCO, "Development in human and financial resources for science and technology: basic statistical tables showing the earliest and latest years for which data are available" (CSR-S-5), April 1978.

[a] Data relate primarily to the public sector.

[b] FTE: Full-time equivalent.

[c] Estimates of each total were derived by simply adding the data for the latest year (mostly around 1973-1975) as contained in the source. They represent, therefore, rough orders of magnitude, which should be treated with caution. The figures for developing countries tend to underestimate the present position, since some of them are for years around 1970.

[d] Per 10,000 of economically active population.

[e] Excluding China and other socialist countries of Asia.

[f] Includes technicians and auxiliary personnel.

[g] Percentage of gross material product.

71. Among developing countries, much of the research and development activity took place in a relatively small number of countries; six countries—India, Argentina, Brazil, Egypt, Republic of Korea and Mexico—accounted for roughly 60 per cent of the total expenditures on research and development of developing countries, and spent a generally higher proportion of GNP on research and development than other developing countries. Limited time-series data on research and development expenditure for these countries also seem to suggest a relatively high rate of increase in their expenditures on these activities. In most other developing countries, such activities were only beginning to take shape, so that the relevant figures recorded were still low or not yet available.

72. As shown above, most of the indicators of skill formation and research and development resources demonstrate improvements and positive gains achieved by developing countries, although to varying degrees. It should be noted, however, that these countries also face the problem of putting to productive use the skills and other human capacities that are created. The record of developing countries in this respect has been far from satisfactory, as unemployment and under-utilization of skills created is prevalent in many of them. Moreover, even when the skills are utilized, they are not necessarily geared to increasing output. While there are many reasons for this situation, it should be noted that the quantitative expansion of skilled personnel has not been integrally linked to the development of opportunities for their adequate use. Thus one of the main tasks involved in altering the technological profile of developing countries is to tackle the problems of both skill formation and improved utilization within the framework of national development.

D. Diffusion of improved technology: examples

73. Another aspect of the technological profile of the developing countries relates to the diffusion of improved technological practices. While there are countless instances

TABLE 9

Selected indicators of technological diffusion, 1960-1976

	Fertilizer consumption (kg/ha)[a]	*Per capita energy consumption*[b] *(kg of coal equivalent)*	*Per capita electricity consumption (kWh)*	*Number of commercial vehicles in use per 10,000 population*	*Railway freight traffic (Net ton-kilometres per capita)*[c]
Developing countries					
1960	6	211	97	26	124
1976	23	426	305	46	209
(1976 as percentage of 1960)	(383)	(202)	(314)	(177)	(169)
Socialist countries of Asia					
1960	13	552[d]	102	—	—
1976	51	719	189	—	—
(1976 as percentage of 1960)	(392)	(130)	(185)	(—)	(—)
Developed market economy countries					
1960	67	3 995	2 596	333	1 916
1976	114	6 388	6 077	1 189	2 270
(1976 as percentage of 1960)	(170)	(160)	(234)	(357)	(118)
Socialist countries of Eastern Europe					
1960	26	2 893	1 305	41[e]	5 428
1976	98	5 251	4 032	140[e]	10 034
(1976 as percentage of 1960)	(377)	(182)	(309)	(341)	(185)

Sources: For fertilizer consumption, FAO, *Annual Fertilizer Review, 1977* (Rome 1978); for energy consumption and electricity consumption: United Nations, *World Energy Supplies 1950-1974* (United Nations publication, Sales No. E.76.XVII.5, and *World Energy Supplies 1972-1976* (United Nations publication, Sales No. E.78.XVII.7); for commercial vehicles in use and net ton-kilometres of railway freight traffic: United Nations, *Statistical Yearbook 1966* (United Nations publication, Sales No. E/F.67.XVII.1) and *Statistical Yearbook 1977* (United Nations publication, Sales No. E/F.78. XVII.1).

[a] Fertilizer consumption is expressed in terms of effective nutrient content of nitrogen, phosphate and potash per hectare of arable land and land under permanent crops. Data refer to the fertilizer year and those for 1960 to the average for 1961-1965.

[b] Consumption of commercial energy.

[c] Freight in net ton-kilometres on railway lines (except railway entirely within an urban unit), including fast and ordinary goods services but excluding service traffic, mail baggage and non-revenue governmental stores.

[d] Average for 1959-1961.

[e] Excluding USSR, for which data are not available.

of such diffusion, they do not lend themselves to any systematic accounting partly because of lack of data and partly because of the absence of appropriate criteria for judging the rate and magnitude of diffusion. There are, however, some universally accepted technological practices whose diffusion can be "compared", not only among countries or groups of countries but also over time. Table 9 shows five such indicators of technology diffusion: fertilizer consumption per hectare, *per capita* energy consumption, *per capita* electricity consumption, number of commercial vehicles in use per 10,000 of population, and net ton-kilometres of railway freight traffic *per capita.*

74. The table is self-explanatory, and only some general remarks may be called for. Comparing the developing countries with the developed market economy countries, there remains a sizeable gap in the level of these indicators of technological diffusion. However, with respect to all of them, except the number of commercial vehicles in use per 10,000 population, the rate of change for the developing countries in the 15 or so years from 1960 was much greater than the corresponding rate for the developed market economy countries. Notwithstanding the varying rates of diffusion among the countries, they appear to indicate that improved technological practices were being spread in the various economic and social sectors of the developing countries to narrow the gap between them and the developed countries.

E. Evolution of technology policy and planning

75. Between 1950 and 1975, an increasing number of developing countries relied on national planning as an instrument of development. The central focus of such planning activities was on the social and economic aspects of development; technology was relatively neglected as a matter for systematic policy-making. As a consequence, the formulation of policy and the establishment of institutions relating to technological development in developing countries did not take place until relatively recently.[35]

[35] For a detailed study of this topic, see, in the present volume, document TD/238/Supp.1, in particular chap. V. See also the note by the UNCTAD secretariat, "Technology planning in developing countries: a preliminary review" (TD/B/C.6/29 and Corr.1), May 1978.

76. It was with the increasing awareness of the problems involved in transfer of technology in some developing countries since the late 1960s that policies relating to the application of technology to the development process began to be viewed in an integrated fashion. Initial policy considerations has to do with the costs of and the terms and conditions for acquisition of foreign technology. A number of institutional and policy innovations were made, including introduction of registration of technology transfer agreements, governmental screening of the agreements, and systematic attempts at domestic adaptation. The extent to which these institutional change occurred varied from one developing country to another. In general, the changes were more significant in the relatively more industrialized countries, since the bulk of commercial technology transfer concerned modern industrial technology.

77. The concern with transfer of technology also led some Governments to take systematic measures to strengthen domestic technological capacity so as to improve the bargaining position and also to permit increasing substitution of domestic for imported technology. The linking of technology transfer and domestic technological development a whole set of changes in technology policies and institutions, including changes in foreign investment, education, research and development, the industrial property system and trade. Again, the changes varied from a symbolic increase in interdepartmental communication to genuine policy co-ordination. There were also attempts in some of the more advanced developing countries to integrate these policy considerations in the framework of national development planning as technology planning.

78. The evolution of technology policy and institutions described above left relatively untouched those countries that are primarily agriculture based and whose industrial development had not yet started in a serious manner. In these countries, including the least developed among them, changes in the economic and technological profiles were relatively small.

CHAPTER III

The technological gap between developing and developed countries

A. Introduction

79. The construction of a viable framework for the technological transformation of the developing countries should begin with a proper understanding of the technological gap among nations. This is a subject on which there is a wide diversity of views. At one extreme it is maintained that the gap is very large and growing. At the other extreme is the view that it is not so large and that the bases are being built up for narrowing it rapidly. Unfortunately, there has been very little systematic analysis on which to draw any firm conclusions.

80. Of course, each of these extreme views, and any intermediate one, is conditioned by the information and perceptions on which it is based. For example, if the number of patent holdings, or *per capita* expenditures on research and development or number of persons engaged therein, or the current technological situation in the most advanced sectors (such as computers and nuclear and space technology), are taken into account, the gap would appear to be very wide, and perhaps even growing. However, if the current levels of productivity in different sectors (a combined result of embodying technology in tools and persons), or the technological inputs actually required for the implementation of the projects and programmes of the national development plans of developing countries, are taken into account, the gap would appear to be not so wide.

81. Each of these extreme views understandably offers its own policy prescriptions. Those who consider the gap very wide emphasize the excessive degree of dependence and the impossibility of lessening it in any foreseeable future, and hence pay greatest attention to external factors, considered either as hindering or as stimulating domestic development. The potential for national action is then severely constrained. Those who view the gap as not so wide generally maintain that the task is to pursue the building up of national capacity so that maximum advantage may be taken of all available technologies, wherever they have been developed, and to embody them in the instruments of production and in the labour force in order to achieve an accelerated rise in productivity. They urge a rapid expansion of output of producer goods, training of technological personnel and promotion of design and engineering capabilities, so as to achieve as quickly as possible the objective of much greater technological and economic independence.

82. These views on the size of the technological gap are so far apart that there is need for a systematic examination of the bases on which informed judgements could be made. This chapter begins with an indicative measurement of the over-all technological gap. The next section considers the gap in the major economic sectors. The last section sets out some preliminary conclusions, highlighting the dynamics of technological transformation. Because of the weakness of the data used and the preliminary nature of the analysis, the conclusions are to be treated as only a point of departure for more systematic work on the subject in the future.

B. Indicative measurement of the over-all technological gap

83. As shown in paragraphs 14 and 15 above, the absorption of technology in any country can best be measured by the manner in which man is able to produce more goods and services through the embodiment of technology in the instruments of production and in the skilled personnel using them. Output *per capita*, or output per head of economically active population (these are functionally related and generally move in parallel), can then be used as a rough and ready measure of the degree of absorption of technology.

84. As may be seen from table 10, *per capita* GDP in 1975, converted into dollars at current rates of exchange, was \$460 in the developing countries and \$5,130 in the developed market economy countries, an appropriate ratio of 1:11. Expressed in terms of GDP per head of economically active population, the comparable figures were: \$1,230 for the developing countries and \$12,290 for the

TABLE 10

GDP by sector (total and per capita) in developed market economy countries and developing countries, 1975[a]

	GDP by sector								
	Total (billion dollars)			*Per head of total population (dollars)[b]*			*Per head of economically active population (dollars)[b]*		
Sector	*Developed market economy countries* (1)	*Developing countries[c]* (2)	*Ratio (1)/(2)* (3)	*Developed market economy countries* (4)	*Developing countries[c]* (5)	*Ratio (4)/(5)* (6)	*Developed market economy countries* (7)	*Developing countries[c]* (8)	*Ratio (7)/(8)* (9)
1. Agriculture	179	185	0.96	230	100	2.3	5 190	430	12.2
2. Industry	1 844	337	5.5	2 320	180	13.0	14 230	2 370	6.0
Mining	57	47	1.2	70	30	2.9	17 810	9 220	1.9
Manufacturing	1 154	168	6.9	1 450	90	16.3	13 640	1 870	7.3
Consumer goods[d]	374	81	4.6	470	40	11.0	10 600	1 290	8.2
Intermediate goods[e]	219	40	5.5	280	20	13.1	18 720	3 250	5.8
Capital goods[f]	561	47	11.9	710	30	28.2	14 960	3 070	4.9
Electricity, gas and water	102	16	6.4	130	10	16.0	36 430	7 270	5.0
Construction	241	51	4.7	300	30	11.2			
Transport and communications	290	54	5.4	370	30	12.6	12 610	2 650	4.8
3. Services	2 056	340	6.0	2 590	180	14.4	weighted average		
TOTAL (1+2+3)	4 079	862	4.7	5 140	460	11.2	12 290	1 230	10.0

Sources: UNCTAD, *Handbook of international trade and development statistics, Supplement 1977* (United Nations publication, Sales No. E/F.78.II.D.1), and United Nations, *Statistical Yearbook 1977* (United Nations publication, Sales No. E/F.78.XVII.1).

[a] Estimates of GDP by sector were derived by applying to the regional GDP figures (available in the UNCTAD source) the estimated percentage shares of sectors in each region. The latter were estimated on the basis of the sectoral weights used for the construction of GDP and world industrial production indices (1970=100), brought up to 1975 using the sectoral and sub-sectoral indices; the relevant figures are found in the United Nations source mentioned above. Total economically active population and the proportion in agriculture were taken from the *FAO Production Yearbook*, 1970 and 1977, and the proportion in industry was estimated on the basis of sectoral weights shown in industrial employment index tables in the United Nations *Statistical Yearbook* and the estimates made by ILO on manufacturing employnent for certain years, in *Labour force estimates and projections, 1950-2000*, vol. V, *World summary* (Geneva, 1977). Economically active population in other sectors was derived as a residual. Because of these crude methods of estimate, and also because the country groupings vary slightly for the different series, the table provides only rough orders of magnitude.

[b] Rounded to the nearest $10.

[c] Not including China and other socialist countries of Asia.

[d] ISIC divisions 31, 32, 33, 34 and 39.

[e] ISIC divisions 35 and 36.

[f] ISIC divisions 37 and 38.

developed countries, a ratio of 1:10, or slightly lower than when total population is considered.[36]

85. Given a technological gap of this size (about 1:10) in 1975, it is relatively simple to work out the general dynamics of the technological transformation of developing countries required to reach the 1975 technological level of the developed countries. It would take 80 years to reach the 1975 level with an annual growth of *per capita* GDP of 3 per cent, 60 years with an annual growth of 4 per cent and 50 years with an annual growth of 5 per cent. These relationships would of course vary in accordance with the size of the gap (i.e. depending on whether the 1975 level, or any other past level or one assumed for the future, was sought to be attained), and with the assumption concerning the annual rate of growth or the period of time within which it was sought to accomplish the transformation.

86. Indeed, the dimensions of time and pace discussed above would seem to overstate rather than understate the real position. They are based on the use of *per capita* income comparison at current exchange rates—a practice that was very widespread in the 1950s and 1960s. It is now generally recognized that such comparisons can give a highly misleading—in fact very distorted—view of reality.

87. A more systematic analysis of differences between countries in the more recent period has contributed to an improved understanding of the limitations of such comparisons of *per capita* output. To begin with, the size of the labour force, the number of working hours and levels of unemployment or underemployment vary from country to country. Moreover, the varying extent to which output is actually marketed, the fact that certain activities are not covered in the measurement of GDP (particularly the major contribution through the unpaid labour of women in the home, which is at best marginally reflected in present methods of income estimation), differences in relative prices, and the limitations of exchange rates as a tool for measuring such differences among countries, all combine to overstate the differences as reflected in superficial comparisons of *per capita* income or output among countries. Any effort at an adequate understanding of the technological gap must therefore keep these limitations in mind, and devise means of taking them into account.

88. The influence of one important limitation—the use of current exchange rates—may be examined here in some

[36] The socialist countries of Eastern Europe and of Asia are excluded from consideration in this chapter because of the gaps in data and conceptual differences in measurement.

detail. Recent work on comparisons of gross product in terms of purchasing power parity shows the major distortion that results when comparisons are based on current exchange rates alone. It has been estimated, for instance, that the deviation from real purchasing power resulting from the conversion of the value of national output in 1970 at current exchange rates was as high as 3.49 for India, 2.32 for Colombia and 1.91 for Kenya. In other words, the ratio of the purchasing power of GDP of India to that of the United States of America in 1970 works out at only 1:14, whereas when comparisons are made on the basis of current exchange rates the ratio is as high as 1:50.[37]

89. If allowance is made for the distortions resulting from the use of current exchange rates, it would seem that the real technological gap was narrower than the ratio of 1:10 mentioned in paragraph 84 above. The *per capita* availability of products is not, of course, a complete indicator of the standard of living of a society, or of its well-being in the widest sense. The latter depends not only on the size of national income and how it is distributed but also on the stock of accumulated assets, such as durable consumer goods, housing, social infrastructure and technology.

C. Technological gap by individual sectors

90. The general ideas on the technological gap described above should be regarded only as a first step towards an informed understanding. Moreover, they tell little about the situation in different sectors of the economy, which may vary widely. An attempt has therefore been made to present in table 10 information on the sectoral composition of GDP per head of total population and per head of economically active population in different sectors. These are rather crude global estimates, based on simplified methods, and represent no more than broad orders of magnitude. None the less, several observations can legitimately be made which have a certain policy significance.

91. In the first place, a comparison of total GDP, broken down by major sectors of economic activity, shows that the differences between the developing and the developed market economy countries are relatively small with respect to agricultural and mineral output. Thus in 1975 the developing countries had an agricultural output somewhat above and a mineral output somewhat below that of the developed market economy countries. The differences were much larger for the other sectors. The developed market economy countries produced 6.9 times as much in the manufacturing sector as did developing countries, the differences in other sectors being a little smaller.

92. Secondly, since the total population of the developing countries is higher than that of the developed market economy countries, it is more meaningful to compare *per capita* availabilities by sector. Agricultural output per head of population in the developed market economy countries was only 2.3 times higher than in developing countries, a ratio that is in sharp contrast with the ratios for manufacturing (over 16) and capital goods (28) (see column 6 of table 10). The comparison for the service sector is less meaningful since the very large differences in the current levels of wages and salaries between the two groups of countries do not necessarily reflect differences in productivity.

93. The third observation is perhaps more pertinent to the measurement of the technological or productivity gap. Strikingly, the technological gap, measured in productivity per economically active person, is smallest in mining and largest in agriculture, the ratios being 1.9 and 12.2 respectively (column 9 of table 10). The small difference in mining is accounted for by its being mostly an export-oriented activity, often externally owned and controlled. The very large difference in agriculture is clearly a reflection of how this vast sector, where most of the male labour—and particularly the female labour—in the developing countries use mainly their muscle power, aided by little more than primitive tools, has remained virtually untouched by the impact of technological advance. In comparison, the ratio for manufacturing was 7.3, a little higher (8.2) in the consumer goods industries, and lower (about 5.0) in the capital goods industry. These productivity differences are obviously a combined reflection of the technological intensity (inputs of more productive tools and more skilled labour force and management) and of the spread of technology among the sectors.

94. These rough indicators give not only a measure of the technological gap but also an indication of the main lines along which the technological transformation of developing countries could proceed. They are not blueprints, but can serve as a broad frame of reference.

D. Technological dynamics of transformation

95. The indicators of time and pace required to reach levels as high as those prevalent in the developed market economy countries in 1975 are summarized in table 11. Crude as they are, they give an insight into the extent of the rise in output that would be called for if the populations of the developing countries were to be supplied with a basket of goods and services adequate not only for meeting their basic needs but also for furnishing them with the amenities associated with the process of development. Much more systematic work is needed at the national level, with an analysis by sectors, before valid indicators can be constructed to outline the dynamics of technological transformation in the developing countries.

96. The indicative estimates show that if the 1975 level of *per capita* availability of goods and services in the developed market economy countries were to be set as an objective for the developing countries, its attainment within 50 years would require an annual *per capita* growth of output in the agricultural, mining, manufacturing and service sectors of 1.4 per cent, 2.2 per cent, 5.7 per cent and 5.4 per cent respectively. The time span would obviously be shorter if these estimates were to be adjusted for the factors that tend to overstate the present gap (see paras. 87 and 88 above). Moreover, it would be shorter still

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[37] See I. B. Kravis *et al. A System of International Comparisons of Gross Product and Purchasing Power* (Baltimore, Md., The Johns Hopkins University Press, 1975). The authors conclude that the size of the exchange rate deviation tends to decline with a rise in the *per capita* level of GDP, expressed in dollars at current exchange parities (p. 5). Thus current exchange rates tend to exaggerate the differences at the extremes of *per capita* income levels. For a discussion of the same problem, see Kuznets, *Modern Economic Growth*... (*op. cit.*)p. 385, where it is estimated that the ratio between Asia and the United States would be 31:1 at current exchange rates, but only 10.5:1 when United States price relatives are used.

TABLE 11

Indicative dynamics of technological transformation in developing countries

Sector	Ratio of per capita availability of goods and in services in developed market economy countries to availability in developing countries, 1975[a]	Annual percentage rates of per capita growth required to reach 1975 levels of developed market economy countries		
		In 50 years (by 2025)	In 35 years (by 2010)	In 25 years (by 2000)
Agriculture	2.0	1.4	2.0	2.8
Mining	3.0	2.2	3.3	4.5
Manufacturing	16.0	5.7	8.2	11.7
Consumer goods	11.0	4.8	7.0	10.1
Intermediate goods	13.0	5.3	7.5	10.8
Capital goods	28.0	7.0	10.0	14.3
Services	14.0	5.4	7.8	11.1
Weighted average	11.0	4.8	7.0	10.1

Sources: UNCTAD, *Handbook of international trade and development statistics, Supplement 1977* (United Nations publication, Sales No. E/F.78.II.D.1), and United Nations, *Statistical Yearbook 1977* (United Nations publication, Sales No. E/F.78.XVII.1)

[a] Rounded figures. Developing countries exclude China and other socialist countries of Asia.

if higher growth rates were achieved through rapid technological development.

97. This approach is intended to serve only as a frame of reference, and it illustrates that the task is not a hopeless one or one that would take centuries to accomplish. It is a manageable task, which could be accomplished within 25 or 50 years, with annual growth rates of *per capita* GDP of 10 per cent and 5 per cent respectively, which are not impossible of achievement.

98. It should be emphasized that there is nothing sacred in the productivity level reached in 1975 in the developed market economy countries. Real *per capita* productivity in these countries had in fact more than doubled since 1950. Depending upon cultural patterns, social requirements, resource endowments, and sectoral employment and productivity levels, any of the *per capita* GDP or productivity levels in the developed market economy countries in the period 1950-1975 could be an objective for the technological transformation of a developing country.

99. It might also be added that the developed countries themselves are now in search of an appropriate development path, and may therefore change their objectives of economic and technological advance in any of the sectors for which data have been given here. Indeed, the need for fresh thinking on patterns of development is as urgent for these countries as it is for the developing countries. Each developing as well as developed country will have to set its own targets for the future, taking fully into account its specific endowments and requirements.

100. The task of attaining such a transformation will be particularly formidable for the 39 countries and territories that constitute the hard core of the development problem and account for about three fifths of the population of all developing countries. Their average *per capita* GDP was below $200 in 1975, and they included some of the rather large developing countries and the least developed among the developing countries (see table 2). Their difficulties of transformation have been aggravated by the economic recession of recent years.

101. An entirely new and unprecedented pattern of national action, founded on the rapid strengthening of the domestic technological capacity of developing countries, will be called for to accelerate their technological transformation. It is urgently necessary to supplement such action by removing international constraints, affording these countries the widest and freest possible access to the existing world storehouse of technologies, and facilitating the rapid diffusion, adaptation and assimilation of those technologies in production structures. This requires a bold programme of action aimed at accelerating the technological transformation of the developing countries and complemented by new forms of international and interregional co-operation.

CHAPTER IV

A comprehensive programme of action for the technological transformation of developing countries

102. The main thrust of the analysis in the preceding chapters is that the technological transformation of the countries that are now developed spanned over a century and involved a rise in productivity per person of about 2 per cent a year—a rather modest rate by recent standards.

103. A quick review of the experience of the developing countries since 1950 shows that output has grown nearly 3.5 times, at about 5 per cent per year, and that *per capita* output has nearly doubled. Industrial output has risen six to seven times, and a whole spectrum of new and modern enterprises has emerged. Capital formation has increased sixfold, from a little over one tenth to about one fifth of GDP. Enrolment in institutions of higher learning has increased tenfold. One out of every four students in such institutions in the whole world now comes from a developing country. Development planning has been adopted as an active instrument of policy, with the public sector—as a producer as well as a consumer and employer—playing a strategic role in many countries.

104. While the developed countries are still far ahead, the dynamics of the technological transformation of the developing countries as a whole are not as discouraging as has often been suggested (see chap. III).

A. Structural constraints

105. With the ground covered in the period 1950-1975, the foundations have been established for the technological transformation of the developing countries. However, there are major differences among developing countries in terms of resources and potential; moreover, in all countries, in order to build on these foundations, it will be essential to overcome a number of structural constraints, both external and internal.

1. *External constraints*

106. As UNCTAD has constantly underlined in connexion with technology issues, the difficulties in accelerating the transfer and development of technology are of a structural nature. General recognition of this fact is reflected in the inclusion in the agenda of the fifth session of the Conference of three of the four items on technology, dealing with structural constraints in the technology relations between developing and developed countries.[38] The existing juridical and legal environment has had an adverse impact on the nature and cost of imported technology and access thereto by developing countries. It has served to distort the priorities in production, prevent an appropriate choice of technology, increase the degree of packaging, and inhibit the maximum use of domestic inputs of intermediate products, capital goods and skills. Constraints have been placed on the diffusion of technology. In consequence, it has not been possible effectively to marshal the technological research and development resources of the developing countries in order to resolve national tasks, and trained personnel have been lost to other countries.

107. It is against this background that the concern of UNCTAD with restructuring the international technological environment has to be assessed. A positive resolution of the issues involved in connexion with industrial property, a code of conduct on transfer of technology and the reverse transfer of technology will contribute to reducing the heavy burden of external constraints and opening the way to the technological transformation of the developing countries.

2. *National constraints*

108. While the importance of external constraints must be fully recognized, it is none the less clear that the process of technological transformation requires action by the developing countries themselves. Critical importance therefore attaches to overcoming national constraints, which are of various kinds. Archaic laws on industrial property, and related laws, regulations and policies and practices having an incidence on technology, have to be modified. Progress in this area will have to be accelerated.

109. The institutional weaknesses in the implementation of a new policy framework are widespread. Some progress has been made in establishing specific structures—for example national centres—for this purpose, but they are in their early phase.

110. Specific goals remain to be set for achievement in the area of technological development. Projects and programmes under national development plans are generally carried out without reference to technological inputs; it need hardly be stressed that this constrains accelerated technological transformation. Development of an independent technological capacity is the key to such acceleration.

111. It is consequently not surprising that at the national level implementation has so often lagged far behind declarations of objectives. Too many relevant problems are not even raised in the decision-making process; too much effort is often misdirected; too many investments are wasted; too little attention is given to raising technological intensity in certain sectors (e.g. agriculture) and among specific groups of the working population (e.g. women workers), so far by-passed by technological advance. These wasted efforts are quite often accompanied by an educational system that is not properly geared to national needs. There is also a lack of trained personnel to man the new institutional structures that are being set up. The present distribution of income has in many cases distorted priorities, favouring concentration of national effort on the production of goods with technologies that have only a limited—and at times non-existent—impact on the production of the right combination of goods with the right technologies to satisfy the most urgent needs of the population and to lay the foundations for sustained transformation over the years to come.

112. These constraints underline the importance of moving from patchwork policies towards a more systematic and co-ordinated effort. Only when the technological issues are fitted into the coherent framework of a national technology plan will it be possible to set the targets, establish the criteria for assessing them and create the instruments for attaining them. In countries that have already acquired some experience in establishing national centres the stage is now set for tackling technology issues at the highest possible governmental level. The movement should take the direction of establishing ministries of science and technology, primarily concerned with the formulation and implementation of technology plans as an integral part of a national development plan. National security, foreign affairs, finance, agriculture, industry, transport and communications, education and health—all these, one by one, over the course of history, have acquired the status of matters to be treated at the ministerial level. It is in some sense surprising that science and technology, which constitute the most active instrument for positive

[38] These subjects are dealt with in documents TD/237 and TD/238, reproduced in the present volume.

advance in the areas cited above, have so far not received serious ministerial attention. In most cases, the existing infrastructure on scientific and technological development has had little direct influence on the formulation and implementation of national goals.

113. The preceding two chapters have explored the framework of possibilities for the most rapid technological transformation of developing countries, but such transformation would require coherent action on an unprecedented scale. The present level of technological diffusion and development in agriculture, industry and other sectors will have to be raised rapidly, as discussed in chapter III. Clearly, there is urgent need to evolve a comprehensive set of policies for action at the national and regional levels, in the developing countries, complemented by the co-operation of the developed countries and the international community with a view to accelerating the technological transformation of developing countries.

B. Main lines of a programme of action for technological transformation

114. Any programme of action, to be effective, must combine measures covering both the long-term and the short-term transformation of developing countries. In the short term, it must strengthen their bargaining position and improve their autonomous decision-making capacity. These measures must be taken in a long-term perspective of technological transformation. The broad lines of action presented below represent only a preliminary listing, which will have to be explored in depth to evolve a composite strategy for technological transformation.

1. *Action by developing countries: the national level*

(a) *Technology planning*

115. The stage is now set in developing countries to move from *ad hoc* and often unco-ordinated policies towards technology planning as an integral part of national development plans. Only then will it be possible to assess the significance of immediate and day-to-day decisions in the longer-term perspective of technological transformation. It would also help to integrate current investment projects and their diverse technological inputs in sectoral plans for technological development. It should then be possible to consider technologies that are common to several sectors and thus to open the way for a broadly based, long-term and well defined policy for the substitution of domestically developed technologies for imported technologies. Technology planning will thus have to be the key instrument in substitution for technology imports as such, as well as in the monitoring of technology imports required to complement domestic efforts in areas in which substitution may take longer or prove uneconomic.

116. Some progress has been made in attempts at technology planning in a few developing countries,[39] but much remains to be done in terms both of methodology and of implementation to ensure that technology planning becomes an effective instrument of the technological transformation of developing countries. This aspect of the question is dealt with in a supporting paper to the present report.[40]

117. Part One of that study examines various aspects of technological options and the needed structural adjustments. It explores the spectrum of technological options in consumer goods industries (food processing, textiles and clothing, footwear, pharmaceuticals), and intermediate and capital goods industries (iron and steel, building materials, pulp and paper, plastics, chemicals, metal products and machinery). It takes up the issues of time scales governing access to technology, and it also examines the infrastructure and the industrial framework needed for developing technological capacity and gearing education and training to skill formation.

118. Part Two of the study takes up the core of the problem: formulation of a technology plan. It reviews the slow but steady movement from technology policy to technology planning, and against that background examines in some detail the status and many components of technology planning, and considerations involved in the allocation of resources among sectors and projects; finally it takes up alternative approaches to technology planning, relevant to widely varying conditions in developing countries. The last part of the study, Part Three, contains a general summary and outline of national action along the lines described below.

(b) *Implementation of technology planning*

119. No matter how elegant and internally consistent a technology plan may be, it remains only an academic exercise without all the necessary instrumentalities for its implementation. This has many implications for the formulation of new policies, the establishment of the necessary institutional structures, including national centres, and the co-ordination of efforts in both the private and the public sectors in meeting the goals set.

120. A number of developing countries have taken steps aimed at strengthening their technological capacity. Many of these attempts have been largely of an *ad hoc* nature, primarily set in motion to try to obviate one shortcoming or another or to fill some of the most obvious gaps in the technology and/or production system. The main elements of composite strategies for technological and structural transformation, requiring a co-ordinate set of policies, laws, regulations, procedures and institutions, have to be explored so as to provide the means for implementing a technology plan as an integral part of a national development plan, as well as to furnish a frame of reference for day-to-day decisions concerning transfer and development of technology in the light of longer-term objectives of self-reliance and technological transformation. Any such composite strategy, combining short-term and long-term measures, would have to provide for the following:

(*a*) Formulation of domestic laws, regulations and policies governing imports of technology;

(*b*) Revision of the national industrial property system in the best interests of domestic utilization, adaptation,

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[39] For a discussion of this subject, see the note by the UNCTAD secretariat, "Technology planning in developing countries: a preliminary review" (TD/B/C.6/29 and Corr.1), May 1978.

[40] Document TD/238/Supp.1, reproduced in the present volume.

development and generation of technology, as well as of consumer protection and export promotion;

(*c*) Screening, evaluation and monitoring of investment, licensing and other forms of technology transactions in order to maximize domestic technological inputs in the short-term and longer-term interest of the population as a whole;

(*d*) In most developing countries, the public sector is a major initiator, investor or consumer of production activities in agriculture and industry and in infrastructure, research and development, education and skill formation. Both the direct and the indirect impact of its activities on the technological transformation of the country is thus considerable. However, the various activities of the public sector lack the necessary co-ordination and/or qualitative emphasis, thus entailing misdirection and waste of invested resources or even outright losses to the economy. Most of the negative effects could be corrected or avoided by a more rational, planned approach to technology in the public sector, which could then become an engine of technological transformation. While the Charter of Economic Rights and Duties of States[41] recognizes the sovereign right of nations over their natural resources, a significant proportion of the production processes using these very resources is still not under national control. The public sector could become a much more effective instrument by extension of national control over those production processes;

(*e*) In some developing countries, particularly the least developed ones, problems of a quantitative nature, e.g. lack of finance, technology and skills, pose heavy constraints on their potential for technological transformation. In these cases quantitative targets—combined with adequate implementation—are of foremost concern, and suitable schemes of co-operation should be evolved to make up for the lack of resources, e.g. by the establishment of a special fund for technological research and development, by means of skill co-operation, and/or through preferential treatment in the transfer of technology to these countries. A scheme combining finance, technology and skills would perhaps be the best solution, and its viability and feasibility merits careful exploration.

(c) *Sectoral issues*

121. Technological requirements, as well as the potential for transformation, vary from one sector to another and from one country to another, depending on natural endowments, material and human resource availabilities and the level of development achieved. Hence the need, within the context of an over-all technology plan, to evolve suitable policies and programmes aimed at specific sectors of critical importance to the developing country concerned. While priorities attributed to specific sectors may differ among developing countries, a number of sectors are of strategic importance to them all; these include health and pharmaceuticals, food, energy, electronics and machinery. At the request of the Committee on Transfer of Technology, in paragraph 6 of its resolution 6 (II) of 15 December 1978,[42] the Secretary-General of UNCTAD made proposals to the Conference, through the Trade and Development Board at its tenth special session, regarding the convening of groups of experts between the fifth and sixth sessions of the Conference and their terms of reference, with a view to examining the main issues related to transfer and development of technology in these sectors.[43]

122. The terms of reference of these expert groups would involve examining the studies submitted to them to assist them in identifying appropriate sectoral policies, measures and action with a view to formulating recommendations and suggestions to be taken at various levels aimed at strengthening the capacity of developing countries and accelerating their technological transformation.

(d) *Efficient acquisition and use of technology and skills*

123. A number of developing countries have accumulated a threshold stock of technology, including skills, for some or most sectors of activity. Others still lack such a stock on an over-all basis; they have to concentrate on creating it in specific sectors on a priority basis, and aim at "spread effects". Increasing imports of technology would add to the total stock, but would not lessen long-term dependence and bring about technological transformation. The question of structural and qualitative changes in absorption, utilization, and endogenous development of technology are therefore of vital importance. The stage is set to proceed in most—if not all—developing countries with:

(*a*) Diffusion of existing technology, particularly where technology is common to several sectors and can be almost directly used with minimal adaptation;

(*b*) Ensuring that the diffusion and adaptation process is controlled and managed domestically;

(*c*) Importing technology for use in several sectors;

(*d*) Concentration or pooling of existing technological capacity scattered over several sectors; e.g. packaging or reconstituting the package on the basis of various domestic technological elements at present diffused, particularly in cases of expansion and vertical/horizontal integration of existing production lines, maintenance, servicing, etc.;

(*e*) Developing new capacity on the basis of existing technology by way of adaptation, research and development, design, engineering consultancy services, including service sector management, marketing and publicity, where skills can be created and properly absorbed;

(*f*) Planning technological transformation, ensuring that critical sectors (e.g. agriculture) and specific groups of the working population (e.g. women workers), so far by-passed by technological advance, are given high priority and are fully integrated in the mainstream of the development process.

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[41] General Assembly resolution 3281 (XXIX) of 12 December 1974.

[42] See *Official Records of the Trade and Development Board, Tenth Special Session, Supplement No. 4* (TD/B/736), annex I.

[43] See the note by the UNCTAD secretariat, "Transfer and development of technology in individual sectors and areas" (TD/B/741), March 1979.

2. *Co-operation among developing countries*

124. Various steps are now being taken to increase co-operation among developing countries and initiatives for the establishment of regional centres have matured to varying degrees. For example, the Asian Centre has already been established in Bangalore, India, and has begun to function. The African Regional Centre has been formally established and steps are being taken to make it operational. Similarly, the establishment of a West Asian regional centre has already been decided upon in principle. Its possible transformation into an Arab centre for transfer and development of technology is currently under consideration within the Arab League. A great deal of preparatory work has taken place concerning the establishment of a Latin American information network on technology (Red de Información Tecnológica Latinoamericana–RITLA), taking fully into account the integrated set of functions relating to a centre for development and transfer of technology, as set out in Conference resolution 87 (IV).

125. The first initiative for the creation of a subregional centre dealing with a specific sector has been the decision by the countries in the Caribbean region to establish a centre on pharmaceuticals for the region. It may be expected that this initiative will be followed by similar action in other regions, as well as in a number of other sectors of critical significance to developing countries.

126. However, the programmes and project activities of the regional, subregional and sectoral centres remain to be worked out. There is an urgent need for harmonizing the policies, rules, regulations and laws governing technology imports. Specific procedures for the exchange of information, technology and skills among developing countries through subregional or regional centres have yet to be formulated. It should also be possible to move on to joint acquisition and/or use of imported technology, particularly where the size of the domestic market of the countries concerned is relatively small. Arrangements for pooling technology remain to be worked out, particularly using the Latin American experience of multinational enterprises established by developing countries themselves. Co-operative research and development, as well as joint design, engineering and consultancy, could also be organized, perhaps by expanding existing facilities, pooling teams currently scattered over several countries, and generating new programmes or projects of common concern to various countries.

127. As the programmes of co-operation expand, it will become increasingly evident that general co-operation is not enough. In fact, it will have to be translated into co-operation in specific sectors of critical importance. Some of the studies that the UNCTAD secretariat has recently prepared on such sectors, and the expert groups may be convened between the fifth and sixth sessions of the Conference, could form the basis for devising necessary policies for such co-operation.

128. Above all, it is important that, as recommended in paragraph 5 (*a*) of Conference resolution 87 (IV) and in paragraph 2 of resolution 6 (II) of the Committee on Transfer of Technology, preferential arrangements should be elaborated for the development and transfer of technology among developing countries. The regional, subregional and sectoral centres could furnish the institutional basis for furthering this objective. Any scheme for such preferential treatment will have to be worked out in great detail to ensure that the gains accruing therefrom are shared equitably, and accrue in particular to the least developed among the developing countries.

129. As these new policies begin to take shape and the new institutional structures start functioning, the need for their functional interlinking will become evident. For example, the centre now established in Asia and the others recently created or in process of creation all list as one of their functions the fostering of co-operation among regional and subregional institutions. However, so far no serious consideration has been given to the manner in which such interregional interlinkages are to be established. The Conference may wish to furnish some guidance on this subject.

3. *Co-operation of the developed countries*

130. Since the third session of the Conference, held at Santiago, Chile, in 1972, much attention has been devoted to the co-operation of the developed countries with a view to improving the access of developing countries to the existing world stock of technologies and thereby strengthening their national technological capacity.[44]

131. Some of the major milestones in this respect are: paragraphs 13, 16 and 18 of Conference resolution 39 (III), the 13 points included in paragraph 10 of Conference resolution 87 (IV), and the four points incorporated in paragraph 11 of that resolution, dealing with co-operation among all countries. In November 1978, the United Nations Conference on an International Code of Conduct on the Transfer of Technology reached agreement on the chapters dealing respectively with special treatment for developing countries and international collaboration. The first chapter lists, *inter alia,* 10 specific measures that the Governments of developed countries should take to strengthen the scientific and technological capabilities of the developing countries. It also spells out five points on which these Governments should assist the promotion of transfer of technology to developing countries as a part of their programmes for development assistance and co-operation. Agreement has also been reached on at least four areas through which Governments of developed countries should make special efforts to encourage and give incentives to their enterprises and institutions with a view to assisting in the development of the technological capabilities of enterprises in developing countries. The other chapter, on international collaboration, lists 10 areas of action that have been agreed upon.[45]

132. An important area of further action by developed countries could perhaps relate to the progressive decommercialization of technologies transferred to developing countries. Indeed, there are at present a large number of technologies in the developed market economy countries

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[44] These issues, which concern a code of conduct on transfer of technology, the industrial property system and the reverse transfer of technology, are dealt with in documents TD/237 and TD/239, reproduced in the present volume.

[45] See "Draft international code of conduct on the transfer of technology", in the form in which it stood at the conclusion of the first part of the Conference (11 November 1978) (TD/CODE/TOT/9).

which are either publicly owned for freely available and which are often those required by most developing countries. However, access to them by developing countries is severely constrained because technologies in the public domain are often made subject to private decisions through a complex process of packaging and control of know-how. In the socialist countries, technology is in the public domain or controlled by public enterprises in which, even where they may be considered private legal entities, the profit motive is not the main determinant of their action or international transactions. Determined action could be taken to facilitate access by developing countries to this type of technology. Indeed, the code of conduct on the transfer of technology under negotiation in the Conference contains an accepted provision on giving developing countries "the freest and fullest possible access to technologies whose transfer is not subject to private decisions".[46]

133. Access by developing countries to technology in the public domain is further hampered by lack of sufficient information on the nature of the technologies available and of the minimum degree of organization required to take advantage of them. The situation could be improved by the establishment in developed countries of the necessary institutions or mechanisms which would keep up-to-date registers of technology in the public domain, to which developing countries would be given the freest and fullest possible access. Even when some costs are charged, they could be reduced to a minimum. In this connexion, especially favourable conditions, particularly in terms of costs and availability of information, could be granted to the least developed countries.

4. *Action by the international community*

134. A rapid and full implementation of agreements reached at various levels would constitute an important step towards accelerating the technological transformation of developing countries. A preliminary review of the progress made in the implementation of these agreements was undertaken at the second session of the Committee on Transfer of Technology. That review showed the broad spectrum of activities being undertaken by various countries and groups of countries with a view to strengthening the technological capacity of developing countries. It also revealed that, unless information was somehow systematized, it would fail in its most elementary purpose, namely, to let each country know what was happening in the world of technology. As a result, in paragraph 3 of its resolution 6 (II), the Committee requested the Secretary-General of UNCTAD "to invite Governments to submit information concerning implementation of Conference resolution 87 (IV) and submit to Governments of States members a report thereon".[47]

135. There are a number of areas in which the combined efforts of the international community could make a major contribution to the technological transformation of developing countries. Such action may include the establishment of an international technology fund, to be used for technological research and development, for design and engineering, and for other technological activities of particular importance to developing countries. Both the Fund and the programme activities should be managed and located in developing countries themselves. They should be deliberately geared to the efforts currently being undertaken by the international community to devise measures concerning the reverse transfer of technology ("brain drain") and skill co-operation among developing countries.

136. The technological innovations, adaptations or discoveries resulting from this concerted international scheme could hardly be regarded as the monopoly of one or other element contributing to it. If any industrial/intellectual property rights are to be attributed, they should be in line with the character of the scheme itself, and be international in nature. Their use should not be guided by profit-making motives, but primarily serve the interests of developing countries in speeding up their technological transformation.

137. Various agreements reached at the international level, including Conference resolutions 39 (III) and 87 (IV), several resolutions of the Committee on Transfer of Technology, as well as the ongoing negotiations on an international code of conduct on the transfer of technology, on the revision of the industrial property system, on the reverse transfer of technology and on skill co-operation, provide a broad framework within which such an international technological development scheme could be evolved. The precise procedures for its establishment, however, remain to be examined in detail.

5. *Technical and operational assistance*

138. A programme of action of this scope would indeed require a vast increase in technical and operational assistance to meet the need of developing countries to strengthen their technological capacity and to move forward in their technological transformation. Pursuant to Conference resolution 87 (IV), an Advisory Service on Technology has been established within UNCTAD. In section III of its resolution 6 (II), the Committee on Transfer of Technology has incorporated in the functions of the Advisory Service the specific task of assisting developing countries in the formulation and implementation of technology plans, including technology policies and plans concerning specific sectors of critical importance to these countries as well as the formulation of an integrated set of policies, laws, regulations and procedures as means of implementing a strategy of technological transformation. The Service is also to assist in the establishment and strengthening of institutional infrastructures, including the training of personnel and exchange of experience among developing countries.

139. Clearly, the present resources of the Advisory Service are inadequate to meet these extensive tasks. Pursuant to the agreement reached at the second session of the Committee on Transfer of Technology, the Secretary-General of UNCTAD is making proposals to the Conference regarding ways and means, including those available within existing resources, of making the Advisory Service on Technology more effective in meeting the increasing requirements of developing countries for technical and operational assistance in strengthening their technological capacity, both individually and collectively.

[46] *Ibid.*, chapter on special treatment for developing countries, sect. A (ii).

[47] See foot-note 42 above.

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Technology planning in developing countries

Study by the UNCTAD secretariat

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Preface

(i) In section A, paragraph 4, of its resolution 87 (IV) on the strengthening of the technological capacity of developing countries, adopted on 30 May 1976, the United Nations Conference on Trade and Development recommended "that each developing country take the necessary steps, at the national level, to ensure:

> (*a*) The formulation of a technology plan as an integral part of its national development plans, as well as the co-ordination of its policies in a number of interrelated areas ....

(ii) In a preliminary paper on this subject,[1] submitted to the second session of the Committee on Transfer of Technology, in December 1978, the secretariat referred to a more comprehensive study in progress. The present paper is that study, which should be regarded as a supporting document to the report on the technological transformation of the developing countries.[2]

(iii) This study is a continuation in one particular sector of the wide-ranging thinking and action that has taken place in the last two or three decades in the area of development planning in general. Its specific object is also to continue—and in some respects to sum up—the work undertaken by UNCTAD on policies and institutions concerned with the transfer and development of technology over the last six or seven years. Reference should be made in particular to the *Handbook on the acquisition of technology by developing*

[1] "Technological planning in developing countries: a preliminary review" (TD/B/C.6/29 and Corr.1), May 1978.

[2] Document TD/238, reproduced in the present volume.

countries,[3] to the sectoral studies on transfer and development of technology submitted to the second session of the Committee on Transfer of Technology, and to a select bibliography of documents on transfer and development of technology that have been prepared by or for the UNCTAD secretariat.[4]

(iv) Technology planning in developing countries is a new field, and the exploratory nature of the present study should be stressed. Much more work is required, in particular on the transfer and development of technology by sectors, on education and skill formation, and on the specific components of technology planning and its implementation in the wide diversity of situations to be found in the countries of the developing world.

(v) Part One of this study shows the relation of technology to other production factors against the background of the technology situation in developing countries. It examines, industry by industry, the relative accessibility of technology over different periods of time. Next, it reviews the activities and agencies concerned, at the national level, with the development of domestic technological capacity. Given the importance of education and skill formation this warrants a chapter to itself. In Part Two, a brief review of the progress made in technology planning in certain countries is followed by a discussion of the nature of such planning, of the allocation of resources for technological development and of possible alternative approaches to the drawing up of technology plans. Part Three provides a general summary and outline of national action.

(vi) In the preparation of this study, the UNCTAD secretariat has drawn heavily upon past work on planning in general and on transfer and development of technology in particular. It expresses its warm appreciation to Mr. A. F. Ewing, who assisted it in planning and completing the entire project, to Mr. A. Rudra, particularly for his contributions on the methodological aspects of technology planning and the allocation of resources thereto, and to Mr. M. R. Bhagavan, who also contributed substantively to the study. The UNCTAD secretariat is grateful to all who assisted in the preparation of this study, but is alone responsible for the contents.

[3] United Nations publication, Sales No. E.78.II.D.15.

[4] TD/B/C.6/INF.2.

PART ONE

Technology options and structural adjustments

CHAPTER I

Need for technology planning: the situation in developing countries

1. Technology is a combination of equipment and knowledge. Equipment comprises all kinds of tools, vehicles, machinery, buildings and what is known as process technology. Technological knowledge covers all kinds of skills (including managerial, financial and marketing), process and product know-how, institutional and organizational know-how, and information on equipment and knowledge (including information on information).

2. Given a certain configuration of equipment and knowledge, it is knowledge that leads to the creation of new equipment and the acquisition of further knowledge. Of the two components, therefore, knowledge is the more decisive factor.

3. Since knowledge is embodied in human beings, development of technological capacity means, among other things, increasing the number of persons with technological knowledge (quantitative change), and raising the level of knowledge of these skilled persons (qualitative change). Equally, it should be borne in mind that even assimilated knowledge is of little use unless there is both a "critical mass" of such knowledge and of the equipment to go with it.

A. Classification of technology

4. Technology may be divided into three broad categories: traditional or craft technology, which is capable of being upgraded but which did not change essentially with the industrial revolution; standard modern technology, which is not particularly complex and had been generally mastered by the middle of the present century; and advanced modern technology.

5. Two further distinctions have to made, which apply to a wide range of industries. The first is between core technology, i.e. the technology that plays a central and specific role in the manufacturing process, which is complex and either patented or confined to the few that have the know-how, and peripheral technology, which is less complex and common to several industries, e.g. to certain types of equipment or materials, and to many engineering services. The distinction applies to the relative ease with which, and the time-scale within which, the technology can be acquired, mastered and/or generated. The second distinction is between core technologies that are also capital intensive, and ancillary technologies, such as transport internal to a factory and some kinds of handling, packaging and distribution, where there is a choice between more and less labour-intensive methods. This second distinction is relevant to employment policy.

6. In the agricultural sector in developing countries, the peasant at the semi-subsistence level and the small commercial farmer use mainly traditional technology; the knowledge component is considerable, but the tools are simple and powered by human or animal energy. Medium-scale and large-scale commercial farmers use standard modern technology, i.e. power-driven machinery and vehicles, as well as a growing range of chemicals based on advanced modern technology.

7. Classification of the industrial sector, from the point of view of technology, is more complex. The pre-eminence

of equipment goods, or capital goods as they are usually called, is the basic element; hence the classification of all industrial products into capital, intermediate and consumer goods. This classification, as will be seen later, is also crucial for the whole development process.

8. The types of capital and intermediate goods employed are governed in the first instance by the nature of industrial production. There are four industrial processes: chemical change; assembly, which adds or subtracts parts; engineering, which alters shapes and sizes; and transport. These processes may be carried out alone or in combination. Some examples in the capital and intermediate goods categories, and excluding consumer goods, are:

Chemical: fertilizers, iron and steel;

Assembly: vehicles, electronics, construction;

Engineering: metal forming and machinery, woodworking, certain stages in the manufacture of vehicles and electronics;

Transport: loading, moving and unloading of materials, certain stages of mining.

9. Capital goods may be specific purpose equipment. With advanced modern technology, specific purpose equipment is usually associated with open or closed loop automation. Specific purpose equipment is essential for mass production, using semi-skilled labour, which is itself increasingly dispensed with as automation becomes more complete. Multipurpose equipment is designed for batch production and used mainly in the engineering industries for the production of machinery or parts thereof, e.g. machine tools or cranes. Finally, there are both simple and sophisticated hand tools, which are required by craftsmen and highly skilled workers to produce objects of complex sizes and shapes whose production cannot yet be mechanized, or by semi-skilled workers in the final assembly of components, e.g. vehicle assembly or electronics.

B. Elements of an efficient use of technological options

10. A major theme of this study is the relative ease—or difficulty—of access to the technology required to make a given product, in other words, to knowledge of how the product is made. But since knowledge has to be combined with other factors of production (finance, equipment, raw materials, various categories of labour), constraints on the availability of any of them may be present in addition to difficulty of access to technology. These potential constraints have to be clearly distinguished if the difficulties associated with acquiring technology are to be seen in perspective.

11. The problem may be clarified by simple examples of setting up different kinds of industrial plant. The following capabilities are required to manufacture any industrial product:

(*a*) Knowledge of the technology required to manufacture the product;

(*b*) Ability to design the plant, including detailed engineering;

(*c*) Ability to construct the plant;

(*d*) Ability to operate the plant;

(*e*) Access to the equipment required to manufacture the product;

(*f*) Access to the raw materials and other intermediate products consumed in manufacture;

(*g*) Access to finance;

(*h*) A large enough domestic or foreign market to sell the total output of the plant.

12. The country concerned may have sufficient capability under each of these eight headings. However, most developing countries are deficient in several of them and have to seek abroad what they lack.

13. Before a consideration, later in this study, of technology, the other constraints will be briefly examined with the aid of examples. It is possible to lessen the design constraint relatively quickly in a wide range of economic sectors, as has been seen in the last decade in a considerable number of Asian and Latin American countries, not all of them large. But there are exceptions, such as production of thermal and nuclear energy, of ammonia and other petrochemicals, and of advanced computers and aircraft. The same industries are also exceptions with respect to the ability to build and operate the plants. There are other industries where design and construction of the plant are not of the same complexity but where ability of a high order is required to operate the plant successfully, e.g. the passenger car industry.

14. In some modern industries, at least a part of the equipment required is highly specialized and custom built, e.g. logging equipment used in offshore drilling for oil, or cracking equipment used in oil refining, and there are therefore very few suppliers. But for most industries, part—and often most—of the equipment can be made in any country that has established a fairly comprehensive mechanical and electrical engineering industry. Availability of raw materials—as distinct from the commercial terms on which they may be available—is not in itself a problem for most industries. Some raw materials, however, are essentially location specific; thus with modern technology it would not normally be economic to try to produce ammonia without a domestic supply of natural gas. Others are available in significant quantities in very few countries, e.g. phosphate rock.

15. Availability of finance is frequently regarded as a constraint in developing countries, particularly for large projects. Nevertheless, it is one that should be viewed in its proper perspective. Even in most developing countries a very large share of investment is financed from domestic savings. The record of developing countries in recent years in raising the rate of domestic saving is encouraging. Moreover, the financing of a given project, however large, is a matter of investment priorities. This is of course not to suggest that, even if domestic savings are sufficient, there may not be shortfalls in foreign exchange.

16. The size of the domestic market is important, particularly in the case of industries where significant economies of scale can be effected, unless there are assured export outlets. Familiar examples are the hydraulic and nuclear power, iron and steel, aluminium, ammonia, urea, petrochemical, wood pulp, passenger car and aircraft industries. Thus is many developing countries that now have not only a low *per capita* income but also a small—or very small—population, even a single plant in these sectors

is not economically viable. A related effect is that some industries, to be economic, have necessarily to be set up as complexes serving several others. Thus a country wishing to manufacture nitrogenous fertilizer by the most economical method starts with a synthesis gas complex, including ammonia and methanol. This leads to the production of nitrogenous fertilizers and also of urea formaldehyde and phenol formaldehyde, which are plastic materials.

17. It is normally assumed that the problem of the small market size of so many countries can be resolved by specialization in international trade, in particular through regional or subregional groupings of developing countries which undertake joint industrial programmes for the market of the entire group. But experience has shown that free trade does not necessarily lead to the industrialization of a small underdeveloped country, and that regional groupings, if they are to contribute effectively to industrial development, require joint planning, which is by no means easy in practice. Yet there is no alternative to increasing industrialization if there is to be economic development, whatever the size of the country. And the smaller it is the more important it becomes to choose an industrial strategy that will promote further development. Selection of the industrial sector is therefore of crucial importance.

C. Strategy for technological transformation

18. Every country needs a combination of both the consumer goods required to meet the basic needs of the population and some, at least, of the key intermediate and capital goods without which an economy cannot expand. There are three main reasons why the production of intermediate and capital goods should start at an early stage in the development process. First, such goods are required for the production of a growing volume of consumer goods, industrial and agricultural. The capacity to import, however much it can be increased, will frequently be limited in the face of growing needs; moreover, experience shows that developing countries cannot necessarily import the kind of capital goods they need and that, where they can, they frequently do so on onerous terms. Secondly, emphasis in much recent discussion has been on the need to find labour-intensive rather than capital-intensive technologies. However, in developing countries: "What is important is not just the development of capital-saving innovations... What is also important is improving the efficiency with which the existing capital goods are produced. Underdeveloped countries... have therefore missed a major source of capital-savings for the economy as a whole [...] Perhaps it is necessary first to take the labour-saving path—at least until one has built up a substantial stock of capital and a capital goods industry catering for a market which exceeds some critical minimum size."[5] Thirdly, the capital goods industry (and the same is true of some intermediate goods, e.g. many chemicals) is much more concerned than the consumer goods sector with processes rather than with specific products. If a process applicable to several products is mastered, what is often referred to as "learning by doing" obviously spreads faster. It is in the capital goods sector that innovation and technological development begin to gather force, primarily through skill formation and the benefits of external economies.

[5] N. Rosenberg, *Perspectives on Technology* (London, Cambridge University Press, 1976), pp. 146 and 148.

19. The combination of consumer goods required to meet basic needs and some at least of the key intermediate and capital goods required to ensure economic growth is bound to vary from country to country. But there are some minimum requirements: in the consumer goods sector, food processing, the essential range of pharmaceutical products, textiles and clothing, footwear; in the intermediate and capital goods sector, energy, rolled steel, iron and steel castings and forgings, a considerable range of metal products, cement, wood products, paper, plastic manufactures, first stage chemicals (as defined in para. 52 below), and a considerable range of machinery.

20. As a country moves through the early stages of development, and sooner if it is a large country, the range of industries within these main categories can be widened. Provided that a country is endowed with resources, the principal factor governing the choices open to it is access to and mastery of technology. No country is self-sufficient in technology or could ever expect to be, for reasons that are self-evident. As development proceeds, however, it becomes increasingly self-reliant in this respect. There is thus a time scale, or rather a whole series of time scales, depending partly on the complexity of the technology. The problem is therefore to analyse and classify by sectors and branches of industry the range of technologies required for proceeding along the development path chosen. It is difficult to conceive of technologies that are universally "appropriate", but there is always at a given point a technology appropriate to a given purpose, within a particular pattern of factor endowments, each of which continues to change over time. What may be appropriate at one time becomes inappropriate later.

D. The case for technology planning

21. All developing countries have adopted policies designed to promote and accelerate economic and social development. Most of them have resorted to development planning, in one form or another; these plans not only have aggregate targets, sectoral programmes and specific projects, but also place marked emphasis on the financial, raw material, equipment and manpower components. Until recently, however, there has been little recognition of the technological factor, of the consequent need for a technology policy, and of the logic of including a technological component in an effective development plan.

22. In a study of approaches to technology planning in developing countries, it is important to recall the doctrines on the application of science and technology to development prevailing less than a decade ago, as set out in the United Nations World Plan of Action.[6] In its discussion of science and technology policies, the Plan of Action refers immediately to "national science policies" (chap. VI, sect. A, 1). It goes on to say that UNESCO studies have shown that "the lower the *per capita* gross national product in countries, the higher tends to be the ratio of fundamental research in the total national expenditure on research and experimental development", and that this fact "should

[6] *World Plan of Action for the application of science and technology to development*, prepared by the Advisory Committee on the Application of Science and Technology to Development for the Second United Nations Development Decade (United Nations publication, Sales No. E.71.II.A.18).

not be regarded as anomalous, since, when a country does not find itself in a position to divert its scarce financial and scientific manpower resources into applied research and experimental development, it naturally concentrates its effort on the basic research which is needed to support the higher education and training of scientists and engineers" (*ibid.*, sect. A, 2). These resources are indeed scarce; in 1970, developing countries spent on average only about 0.2 per cent of GNP on research and development. Yet even such modest resources are hardly being used effectively. An article, the very title of which is eloquent of the failure to develop a genuine indigenous strategy for science in Latin America, shows that this is partly due to external "assistance" and also—much the same thing—to the fact that the attitudes and values of many eminent Latin American scientists are based on those prevailing in Europe and North America.[7]

23. The World Plan of Action, still basing itself on UNESCO surveys, distinguishes four functional levels in scientific and technological infrastructure (*ibid.*, sect. B, 1). The first level concerns planning, decision and control, i.e. functions exercised by a minister of State responsible for science policy, or a ministerial committee for science policy, backed by a national council for science policy. The second level concerns co-ordination, promotion and financing of scientific and technological research, for which there are normally several bodies. The third level concerns execution of research, involving institutions for higher education in science and technology, technical training, and research and development institutions (characteristically, the reference at this level is to "science"—the word "technology" is not mentioned). The fourth level concerns scientific and technological public services, normally known as technical services.

24. In 1970, 11 African, 18 Asian and six Latin American countries had ministries for science, ministerial committees for science policy or science planning bodies (some had several such bodies). Nearly a decade later, a number of countries began to set up bodies of control for the transfer and development of technology; and five countries have recently drawn up and published science and technology plans (see paras. 119 *et seq.* below). It is thus beginning to be recognized that the mechanical transplantation, largely on paper, of science policies and institutions from developed countries is not only an irrelevant exercise and a waste of resources but also an actual diversion from the harnessing of technology—and ultimately science—for economic and social development.[8]

25. Nothing that has been said about the present state of both science and technology in developing countries should be interpreted as decrying the fundamental importance of science, or of the constant development of science. Yet "science is not *uniquely* important and *by itself* can contribute relatively little. In the absence of other complementary inputs—high level technical skills, strong incentive systems, flexible and responsive organizational structures for mobilizing resources—even a highly creative scientific community is of little economic consequence. On the other hand, the evidence suggests that when a country *has* possessed those other inputs in the past, it was usually able to surmount the difficulties imposed by the underdeveloped state of its own scientific establishment".[9] The classical economists, far more than most of their successors, understood not only the vital importance of science in economic development but also what it was that drove science forward. Engels wrote: "If, as you say, technique largely depends on the state of science, science depends far more still on the *state* and *requirements* of technique. If society has a technical need, that helps science forward more than ten universities.[10]

26. It is a curious arrogance that leads scientists from developed countries and their spokesmen in governmental and international organizations to tell developing countries that they must give the highest priority to fostering "curiosity", "excellence" and "culture", and that the way to do this is to follow in the image of "western science", itself largely derived from Europe. The European milieu has no monopoly of inventiveness. "What Western European civilization seems to have developed was a powerful combination of cultural values, incentive systems, and organizational capabilities for transforming inventions into highly utilitarian forms".[11]

E. Key definitions

27. Finally, at the outset of this study it seems useful to recall some key definitions, neglect of which has sometimes added to the prevailing confusion, the terms "science" and "technology" being used in tandem or, as seen earlier, the term "science" being used alone to cover both.

28. Basic scientific research may be defined as original investigation intended to expand the frontiers of knowledge, without necessarily having a practical aim. Applied scientific research is also original investigation by scientists, but directed primarily towards a practical objective, e.g. work on production of new strains of wheat and rice, and the industrial research since the Second World War that has led to major breakthroughs in petrochemicals and electronics (the research element in research and development). The other element, i.e. development, is the use of scientific knowledge to produce new or better materials, products, processes, systems or services. This involves the scaling up of laboratory research to the prototype level and gives rise to technology. Here again, an example may be drawn from the work on new strains of rice and wheat, which in practice are of little use in a given country without further research and development in experimental farms. Technology can best be designed, in terms of the original meaning of the word, as a body of knowledge on techniques, a technique being an applied method of production. Hence a technological change is an advance in knowledge, and a change in technique is an alteration in the character of the equipment, products and organization

[7] See A. Herrera, "Social determinants of science in Latin America: explicit science policy and implicit science policy", in C. Cooper, ed., *Science, Technology and Development:* the Political Economy of Technical Advance in Underdeveloped Countries (London, Frank Cass, 1973); and F. H. Harbison, *Human Resources as the Wealth of Nations* (London, Oxford University Press, 1973), on a similar bias in higher education in most developing countries.

[8] See *World Plan of Action ...*, pp. 91-94.

[9] Rosenberg, *op. cit.*, p. 285.

[10] F. Engels, "Letter to W. Borgias", 25 January 1894, in *Marx and Engels, Selected Correspondence* (London, Lawrence and Wishart, 1934), p. 517.

[11] See Rosenberg, *op. cit.*, p. 286.

actually used. This is turn gives rise to the distinction between the generation and diffusion of new technology and the application of new technology in practice, i.e. technical innovation.

CHAPTER II

The spectrum of technological options

29. The considerations governing access to technology can be applied to the range of industries required and capable of being established within a reasonable time span in most of the countries at present classed as developing. Within each sector or subsector, the type of technology required is indicated under the headings "craft", "standard modern", and "advanced modern". The classification relates to core technology, as distinct from peripheral technology.

A. Consumer goods

1. *Food processing*

30. This includes (from the post-farm stage):
Storage and infestation control;
Cereal and legume processing;
Baking;
Vegetable and animal oil processing;
Vegetable and fruit processing;
Preparation of meat, fish, eggs and poultry;
Dairy products;
Starch and sugar products;
Plantation product processing (cocoa, coffee, tea and spices);
Fermentation technology.

31. In many developing countries, a considerable part of the technology required is either available or could be mastered, adapted or generated within a short period. This is largely true of control and reduction of post-harvest pests in storage and of improvement in traditional rural storage structures and practices; of cereal and legume processing; of baking; of fruit and vegetable processing; of preparation of meat, fish, eggs and poultry, including use of by-products; of dairy products and of starch and sugar products. The technologies that are not yet accessible on are not likely to be accessible for a considerable time, and that will therefore continue to have to be imported, include: design and construction of much of the farm machinery for handling and storage; design and construction of laboratory equipment for grain processing; most of the technologies used in vegetable and animal oil processing; design and construction of some of the equipment used in fruit and vegetable processing; design and development of some of the equipment required for animal and fish processing; design and construction of some dairy equipment (e.g. pasteurizers); design and construction of some of the equipment required for processing coffee, cocoa, tea and spices; and much of the fermentation technology.

32. It should be noted that a number of the stages in food processing are common to many foods: receiving, inspection, cleaning, grading, primary process mixing, shaping, sizing and packaging. Other processes that may be involved in the processing of many kinds of foods are heating, refrigeration, hydration, fermentation, smoking, curing and extraction. Much of this technology is of an engineering and chemical character and is available or accessible given the existence of the first stages of a mechanical and electrical engineering industry and of a chemical industry. On the other hand, the more complex continuous process technologies are required primarily for the export of processed foods to sophisticated markets in high income countries.[12]

2. *Textiles and clothing*

33. Spinning, weaving, dyeing and finishing can be carried on economically with standard modern technology; and clothing is of course often a craft industry. Recent advances in technology relate mainly to the speeding up of operations and greater integration of successive stages of production with a view to saving labour. The essentials of the technology of the industry have not changed and the knowledge is accessible within a relatively short period of time to any country.

3. *Footwear*

34. For the whole range of requirements for mass consumption, craft or standard modern technology is readily accessible.

4. *Pharmaceuticals*

35. Formulation and packaging are relatively simple operations and a start can be made by producing the active ingredients of drugs. However, production of the chemical raw materials requires an advanced chemical–especially petrochemical–industry.

B. Intermediate and capital goods

1. *Energy*

36. A breakdown of the operating techniques required in the energy sector shows that many of them are more accessible than is commonly supposed.[13] Building the equipment for the production of oil and gas up to the refining stage is for the most part a very complex operation, but the operating process—other than logging and reservoir engineering–is for the most part fairly easy to master.

37. Electric power equipment includes a variety of elements: turbines, generators, power and distribution transformers, switchgear and rectifers. The size of specialized equipment ranges from 100 kg to 100 tons; the price may range from $1,000 to $50 million; manufacturing may take as long as three years. Turbines may be powered by water or steam. Electric motors convert electric power to

[12] See the report by the UNCTAD secretariat, "Technological policies in the food industry: issues for research" (TD/B/C.6/40 and Corr.1), December 1978.

[13] See the study by the UNCTAD secretariat, *Energy supplies for developing countries: issues in transfer and development of technology* (United Nations publication, Sales No. E.80.II.D.3). See also "The international market power of transnational corporations: a case study of the electrical industry", study prepared by R. S. Newfarmer at the request of the UNCTAD secretariat (UNCTAD/ST/MD/13), April 1978, chap. I.

mechanical power. Large quantities of insulating wire and cable are used. Cables have three components: the core conductor, made of copper or aluminium, the insulating covering and a protective layer.

38. For thermal or hydraulic power, the technology is in the main well established. Most new inventions have come from small firms and individuals and have been purchased and refined by large firms. The principal trend has been to increase the size of turbines and generators so that output increases more than unit costs. In the nuclear power sector, both the technology and the other skills required to build the plant and the degree of sophistication of the operating process are very advanced. In the thermal power sector and, still more, in the hydraulic power sector, the total package is complex from the point of view of technology and from the point of view of design, construction and subsequent operation. But there is marked scope for unpackaging–for doing part at least of the design work, for producing a growing range of the equipment and for playing an ever greater part in the building and later in the operation of the plant.

39. In the coal industry, the technology is generally well established and accessible and the operating stage relatively easy.

40. In some of the forms of renewable energy, e.g. solar energy for heating, lighting and cooking, and biogas, the technology is relatively accessible and the degree of sophistication of the operating process low.

2. *Iron and steel*

41. Major advances were made in iron and steel technology in the years following the Second World War. The introduction of top blown oxygen steel-making (the LD process) in the early 1950s led to marked savings in both capital and running costs and the rapid displacement of the open hearth process. The introduction, at about the same time, of continuous casting led to even greater savings in capital and running costs for the production of semi-finished steel products. Other developments in the period following the Second World War were mainly concerned with increasing the degree of automation and computer control both to save labour and to obtain higher and more constant quality. But if the technologies are now long established and well known there is still, for most developing countries, the problem of scale of output. An integrated plant, from iron smelting to the finished product, has a minimum annual capacity of 500,000 tons, and may achieve economies of scale of up to 5 million tons, particularly if flat steel is produced. But high quality sheet is required in particular for durable consumer goods –passenger cars and household equipment– accessible only to those with high incomes.

42. Two technological developments are of particular interest to developing countries. One is the HyL process of direct reduction of iron ore, developed in Mexico. Provided high grade ore and natural gas are available, production is economic at about 300,000 tons of finished products per annum. The other is the plane mill for the hot rolling of wide flat products. Here again, 300,000 tons capacity is economic (compared with at least 2 million tons for a wide strip mill). However, the plane mill has not yet quite reached the production stage.

43. The principal obstacle to installing iron and steel making in a developing country is still the problem of economies of scale rather than the inherent problems of gaining access to and marketing the technology. India now has virtually complete capacity to design a modern integrated iron and steel works and to supply a very high percentage of the equipment requirements at almost every stage, from extraction of raw materials to production of finished steel.[14] Mexico is well advanced on the same road.

44. The starting point for a small country is the simple rerolling of imported billets, supplemented by scrap where available and cheap, for the production of goods in immediate demand.

3. *Building materials*

45. The group of industries considered here are those catering mainly or wholly for the construction industry, as distinct from those that are by-products of other industries (e.g. structural steel, aluminium, copper and plastics). The principal industries are cement, lime, plaster, sheet glass, concrete structures and components, clay bricks and tiles, timber components, ceramic pipes and sanitary ware.

46. A broad sequence is normally followed in the establishment of building materials industries (with of course variations depending primarily on resource endowment). It starts with walling materials, followed by roofing and flooring, which together form the structure of any building. Finishing materials and equipment normally come later, e.g. doors and windows, plumbing and electrical equipment.

47. In a survey of some 41 building materials classified according to selected production criteria,[15] only four are made by a basic process that has been used commercially for less than 10 years: synthetic aggregates, prestressed concrete units, plastic products (mainly injection moulding and extrusion), and aluminium window frames. This is a fair indication that there is a marked degree of technological complexity only in the case of these four products. Economies of scale are significant for the more essential building materials in the list only in the case of cement and sheet glass, offset in the case of the former by high transport costs.

48. Given also the considerable possibilities of substituting one building material for another, it is reasonable to conclude that the early attainment of a high degree of technological self-reliance is feasible in this group of industries.

4. *Pulp and paper*

49. Most of the technologies required for the manufacture of pulp and paper are well established and documented.[16] Usually they are not patented, except for

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[14] See "Case studies in transfer of technology. Purchase of capital goods and technology in the iron and steel sector: the case of Bokaro, India", study prepared by M. N. Dastur at the request of the UNCTAD secretariat (TD/B/C.6/27), June 1978.

[15] UNIDO, *Monographs on industrial development*, No. 3, *Building materials industry* (United Nations publication, Sales No. E.69.II.B.39, vol. 3).

[16] See *The transfer of technology to developing countries–the pulp and paper industry*, by K. R. Meyer, UNITAR research report No. 19, 1974.

certain new equipment designs and certain special pulping, chemical recovery and bleaching systems. The most widely used chemical pulping process is the sulphate or kraft process, using an alkaline cooking liquor, which can be applied to almost all fibrous raw materials. Cooking can be carried out in either a batch or a continuous system. Bleaching systems are usually continuous and in several stages. The standard kraft recovery system requires evaporators, recovery boilers, recausticizing and lime kilns. The next stage is transformation of pulp into paper or board sheets, using comparatively simple machines. The final stage is drying.

50. Access to technology and the subsequent mastery thereof is not a major problem in the pulp and paper industry. The major constraint is economies of scale. The minimum economic size of typical new mills in North America is 600/800 tons per day for a bleached draft pulp mill; 400/500 tons per day for a conventional newsprint mill; 300/400 tons per day for an integrated bag and wrapping paper and/or linerboard pulp and paper mill; and 200/300 tons per day for an integrated writing and printing pulp and paper mill. Corresponding mills in developing countries catering mainly for domestic markets can be one third to one half of these sizes, given moderate tariff protection and economies in the cost of transporting imports. There is little scope for more labour-intensive technologies in this industry other than in the handling and preparation of tropical raw materials. However, there is some scope for using second-hand standard equipment in the earlier stages of setting up an industry, the logical sequential stages of which are: paper converting based on imported paper; paper and/or paperboard based on imported pulps (not all grades can be produced on a single machine, and production of newsprint comes much later); finally, when the market is large enough, an integrated pulp and paper mill (for some developing countries there may also be the option of a non-integrated pulp mill producing for export, but this is a highly capital-intensive operation and may well remain an enclave industry).

5. *Plastics*

51. The manufacture of plastic articles requires standard modern technology, but that is not the case of the manufacture of plastic materials, which is part of the chemical industry (see below).

6. *Chemicals*

52. Three stages in the building up of a chemical industry[17] are within the range of developing countries:

Stage one: oils and fats; paints; cosmetics and soap; ink; candles and matches.

Most of these, of course, are consumer goods. The technology is mainly standard modern and economies of scale are slight.

Stage two: fertilizers, which have to be considered together with other chemicals required for their manufacture: ammonia, urea, ammonium nitrate, ammonium sulphate, nitric acid, sulphuric acid, phosphoric acid, hydrochloric acid (used to treat phosphate rock), triple superphosphate, diammonium phosphate, muriate of potash, sulphate of potash and NPK compounds complexes.[18] The technology required for the production of a number of these chemicals is relatively well known and accessible and the economies of scale are for the most part not very large. But there are major exceptions, where the technological advance has been rapid, where the technology is complex and in few hands and where there are major economies of scale. This is the case with ammonia and urea. Half the fertilizers used are nitrogenous, and urea is now by far the most important source of nitrogen. The typical scale of output of ammonia has risen from 540 tons per day in 1964 to 1,300/1,500 tons per day with the introduction of centrifugal pressure, leading to total energy recovery and dramatic savings in fuel. The optimum scale of output of urea is now about 1,800 tons a day. Process technologies are closely controlled by five or six firms in the developed world, fully patented and licensed to users either direct or in some cases through a limited number of engineering firms. The process generally used for phosphoric acid is controlled by two firms, and that for nitrophosphates by four firms (it should be added that phosphate rock is available in quantity in very few countries).

53. There are other constraints besides technology and scale. Investment costs are now high; abundant local supplies of natural gas are now virtually essential; and a high order of skill is required both at the stage of plant design and construction and to ensure close to capacity operation.

54. Although production of fertilizers and related chemicals begins at stage two, it is evident that in this area there will inevitably be a large measure of continuing technological dependence. In countries possessing natural gas, production of plastics, raw materials and man-made fibres is beginning to be envisaged; but again, there will necessarily be prolonged dependence on the limited number of firms in developed countries that own the technology.

55. Other stage two chemical products are: pesticides, detergents, dyes and explosives.

56. *Stage three* products are: acids, alkalis, salts, chlorine and other industrial gases, petrochemicals and synthetic rubber, organic intermediates, synthetic dyes and pharmaceuticals, and metallurgical reagents and additives. At this stage chemical complexes begin to be set up, e.g. acetylene for the production of PVC and cellulose acetate; caustic soda and chlorine; phosphoric acid for the production of triple superphosphate and sodium tripolyphosphate detergent; synthesis gas for the production of nitrogen fertilizer and plastic materials; ethylene for the production of plastic materials and synthetic rubber; benzene for the production of plastic materials, synthetic rubber and detergents; propane-butane for the production of acetone and synthetic rubber.

57. The table below shows production of selected chemicals in most of the more advanced developing

[17] See UNIDO, *Monographs on industrial development,* No. 8, *Chemical Industry* (United Nations publication, Sales No. E.69. II.B.39, vol. 8).

[18] See report by the UNCTAD secretariat, "Fertilizers in developing countries: development of their technological capacity and resources" (TD/B/C.6/71).

countries, including two with centrally planned economies. Since some of the figures are not readily available, comparisons should be made with caution. The level of development of the Romanian chemical industry is significant relative to the size and GNP of the country. It is apparently greater than that of Yugoslavia, a country of the same size and with a somewhat higher GNP. The contrast between Mexico and Brazil in this sector is also interesting.

58. With respect to the chemical sector, it should be noted that a high proportion of the equipment required comes from the engineering sector and, secondly, that the scope for adapting technology to the specifications of local raw materials (most of the chemical raw materials are available in many developing countries) is greater in the chemical industry than in most other industrial sectors. With regard to the second point, alternative processing routes are unlikely to be devised without local research, development and designing. For this purpose very advanced technical knowledege is not necessary. The problem is to move from the laboratory stage through the development stage to a commercial scale of operations. The conversion ratio in chemical reactions can be established only by careful and lengthy experiments on pressure, temperature and the concentration of auxiliary chemicals; but here again, acquisition of the necessary professional competence need not be an unduly difficult process.

7. *Metal products and machinery*

59. For a country that is still in the developing category there are three stages.[19] *Stage one* covers metal products manufactured in the main from imported sheet metal, e.g. containers, household and other utensils, window frames and metal furniture. But the most important development at stage one is the acquisition of skills in maintenance and repair of a wide range of imported equipment used in the country. *Stage two* brings down the share of metal products in the whole metals and machinery sector to 35-40 per cent. In this stage the following products begin to be manufactured:

A wider range of containers;

Hot forged and pressed products, including agricultural tools and implements and hand tools for small scale industry;

Wire products;

Stamped products (mainly), including locks, fastenings, electrical accessories, cutlery;

Machined parts (mainly), including taps, valves, stoves, heaters, screws and other non-electrical mechanical parts;

Metal structures, including posts, girders, beams, silos, tanks, boilers and retorts;

Sheet metal products, including tanks, receptacles, drums, containers, cookers and stoves; cast iron, ferrous and aluminium household ustensils; electrical transformers;

Light machinery and parts, including some metal-working machine tools, pumps, looms, sewing machines, office machines, electric motors;

Heavier machinery, including moulds, small tractors, further metal-working machinery, well-drilling machinery, pressure regulating valves, hoisting equipment, excavating, levelling and boring machinery (fixed and mobile), and woodworking machinery.

60. A major development during stage two is the growth of local knowledge of technology and of multipurpose machine shops able not only to repair but also to manufacture replacement parts for much of the machinery and equipment used in the country.

61. At *stage three* the share of metal products falls still further, the range of equipment is diversified and machine tools become increasingly important.

62. Machine tool technology has not changed basically in the last 100 years, apart from three developments, of which only the last is comparatively recent. In 1907, F. W. Taylor established the need to cool the tip of a machine tool and worked out a formula—which remains the basis of machine tool practice—for optimum cutting speeds and feeds related to the wear time of the cutting tool, the material to be cut, the capital cost of the machine tool, the down time for regrinding and the level of wages. The next step was the "throw-away" carbide tip, which eliminates the need for regrinding. Since the Second World War, computer controlled machine tools have been introduced, but only slowly.

63. The proportion of electrical to non-electrical machinery in developing countries is about half that in developed countries. The complexities of most of the technologies required for electric power production have been referred to above. The other branches of the electrical industry are telecommunications apparatus, domestic electrical equipment, electrical apparatus for medical purposes and other electrical machinery and apparatus—a mixture of capital goods and durable consumer goods, and covering a wide spectrum of technological complexity. Some, as seen above, are likely to be produced at an early stage of development. The electronics industry has become one of the most technologically advanced and the product cycle is short.[20] This broad sector also includes automotive products, although the manufacture thereof draws on several other industries. It is not difficult to understand the notion of the "technology" for producing ammonia or nuclear energy, although such technology is immensely complex and inaccessible. It is much harder to talk about the technology of automotive products.[21] All such products, ranging from passenger cars, buses and commercial vehicles of all sizes to farm tractors, forestry equipment and mobile construction equipment, have a power train (engine, transmission, drive shaft and axles), body and chassis, and a wide variety of attached parts such as tyres, batteries, radiators and internal fittings. Raw materials used include iron and steel and other metals, and rubber, plastics and glass. A small passenger car has some 2,500 major parts and assemblies—20,000 if every nut and bolt is counted. A standard diesel engine has some 750 parts. Some 15,000

[19] See UNIDO, *Monographs on industrialization of developing countries*, No. 4, *Engineering industry* (United Nations publication, Sales No. E.69.II.B.39, vol. 4).

[20] See "Electronics in developing countries: issues in transfer and development of technology", study by the UNCTAD secretariat in co-operation with A. Parthasarathi (TD/B/C.6/34), October 1978.

[21] See *International transfer of automotive technology to developing countries*, by J. Baranson, UNITAR research report No. 8, 1971.

Production of selected chemicals in selected developing countries, 1970-1974[a]

(Thousands of tons)

	Ethylene	*Acetylene*	*Benzene*	*Methanol*	*Ethanol*[b]	*Sulphuric acid*	*Hydrochloric acid*	*Nitric acid*	*Caustic soda*	*Soda ash*	*Nitrogen*	*Phosphoric acid*	*Plastics and resins*	*1975 population (millions)*	*Per capita GDP in 1975 ($)*
Brazil		9.3	22.5		4 495	421	54		189	106	150	387	110	106	1 000
Egypt					294	31	2.3	2	14	–	100	95		37	320
India	73.8	7.4	55.0	28.7		1 294	101	22	428	510	1 187	321	109	598	140
Mexico	178		97	30	914	2 025		172	245	403	409	197	36	60	1 300
Republic of Korea		8.9			871	474	33		45	97	514	166	68	35	530
Romania	111		118	90	600	1 358	54		444	807	980	404	283	21.3	1 300[c]
Yugoslavia					3[d]	875	11	666	97	143	371	253	167	21.4	1 610[c]

Sources: United Nations *Statistical Yearbook;* various issues; population and GDP, UNCTAD, *Handbook of International Trade and Development Statistics, Supplement 1977* (United Nations publication, Sales No. E/F.78.II.D.1).

[a] Data refer to latest year for which figures are available.

[b] Thousands of hectolitres.

[c] GNP per capita.

[d] 1963.

separate machining and treatment processes are required to convert finished steel products, forgings and castings into engine components such as pistons and engine blocks.

64. This brief sketch of the automotive industry (production or assembly) brings out two main points: one is that hundreds of technologies are involved, a large proportion of which are in themselves well known, not particularly complex and therefore accessible to many developing countries; the other is that the manufacture of automotive products is an assembly industry of great complexity, much of its subject to economies of scale and requiring great managerial skill, including high skills in quality control. Technology is transferred by way of process sheets, blueprints, manufacturing specifications and operating instructions. There are two main elements in the gradual acquisition of technological capability. The first is the progressive establishment of domestic components production (the road to be taken is bound to differ from country to country); the second is acquisition of the design and engineering skills without which technological know-how cannot be absorbed and manufacturing techniques adjusted to local conditions. This has been the key to the rapid rise of the Japanese automotive industry and, together with abundant skilled labour, has made it possible for a labour-intensive components sector to play such a large part in this industry.[22]

C. Time-scale governing access to technology

65. Some broad conclusions can be drawn in terms of the time-scale for access to a considerable degree of technological self-reliance. Given the development of the chemical, metal products and machinery industries to stage two, it should be possible to achieve such self-reliance within a few years in the following consumer goods industries producing for the domestic market: food processing; pharmaceuticals, moving from formulation to the manufacture of some of the active ingredients; and textiles, clothing and footwear. In the following intermediate and capital goods industries, again catering for the domestic market, a considerable degree of technological self-reliance would appear to be feasible within a similar time span: rolled steel; the principal building materials; paper; stage one and some stage two chemicals other than the "complex" products (which would be feasible in a few countries only); all stage one and stage two metal products; and most of stage two machinery.

66. The purpose of this broad sketch has been to show that the time perspective within which most developing countries could attain a much higher degree of technological self-reliance is relatively short, given the adoption of appropriate policies and, first and foremost, a serious industrial development plan.

D. Recent examples of increasing technological self-reliance

67. In concluding this chapter it is of some significance to look at what has actually been happening in the last decade or so in the most industrialized developing countries, which are also export-oriented. This is possible on the basis of a statistical note by the UNCTAD secretariat.[23] Of 422 individual four-digit SITC items, 50 accounted for nearly four fifths of the fourfold increase—$23 billion—in the total value of exports of all items during the period 1970-1976. The following items—either consumer goods or intermediate products derived from local natural resources, and all using craft or standard modern technology—accounted for three fourths of the increase:

Clothing, textiles, footwear;
Toys, sports goods, luggage, handbags;
Furniture;
Cutlery;
Carpets;
Plastic articles;
Veneers, plywood and other timber manufactures;
Processed foods;
Silk yarn and thread;
Jewellery (imitation or real).

68. Several exporters, e.g. Hong Kong and the Republic of Korea, are also beginning to break into developed country markets for engineering products, some relatively capital intensive, but all still using established and not significantly changing technologies, and with standardized products, such as:

Radio and television receivers;
Watches and clocks;
Some household appliances;
Electronic components;
Other office and telecommunications equipment.

69. Production for export in these sectors in developing countries will grow, and it is readily predictable that the same will be true of other capital-intensive industries where the technology is well established and accessible:

Commercial grades of steel;
Simple ships;
Metal containers;
Some power-generating machinery.

70. These "stages of industrial development" reflect the evolution in Japan, which a quarter of a century ago moved from labour-intensive textiles to "yesterday's growth industries", such as cars and electrical equipment, and which will now have to move—like the United States and the most advanced countries in Western Europe—into knowledge-intensive, technologically advanced and still advancing sectors such as electronics, telecommunications, computers and still more sophisticated consumer goods. Moving into the first stage industries referred to above will be a further group of developing countries in Asia, and some in Africa.

71. Whether or not the export-led strategy which has been the basis of much of the experience referred to above will continue to prove viable in view of other constraints, particularly growing protectionism in developed countries, the point to be stressed here is that a number of developing countries have already proved that it is possible to acquire and largely master a considerable range of standard modern industrial technologies.

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[22] *Ibid.*, p. 24.

[23] "Dynamic products in the exports of manufactured goods from developing countries to developed market-economy countries, 1970-1976" (UNCTAD/ST/MD/18), March 1978, reproduced in *Trade in manufactures of developing countries and territories, 1977 review* (United Nations publication, Sales No. E.80.II.D.2), Part Two.

CHAPTER III

Infrastructure and institutional framework for developing domestic technological capacity

72. When a developing country decides to establish a planning ministry or office, to work out a development plan and deliberately use economic planning as an instrument to achieve its economic and social goals, it has to start from what already exists; similarly, in deciding to develop technologies domestically, it starts with the technologies already available. Most of these technologies have been and are still being imported, although some are of local origin, probably largely based on long established tradition and craftsmanship.

A. Unpackaging of technology

73. Thus the starting point has to be the unpackaging of imported technology and the progressive fitting of domestic technology into the total mix required to implement the country's development policy and development plan. Imported technology may be part of a total package, including the whole of the technology required for a given project, as well as other elements such as equipment, finance, management and marketing. It may also be a complete technology process, but excluding all or some of the other elements. It may be that only certain kinds of technology have to be imported; in other words, there is in fact sufficient technological capacity to obtain the technology piecemeal from both foreign and local sources.[24]

74. Thus the starting point in the generation of local technology is the unpackaging of the following principal elements:

(*a*) Components of the total technology mix to be imported;

(*b*) Design and engineering, both local and foreign;

(*c*) Components of equipment, including spares;

(*d*) Components of raw materials, including construction materials;

(*e*) Manpower requirements and the training that should be associated with each category of manpower.

B. Adaptation of technology

75. Conceptually, the next step—for in reality all the activities described take place simultaneously—is adaptation of technology, which is a continuous and dynamic process. It is worth recalling that all countries, developed and developing alike, import technology, and that the overwhelming majority of them import more than they obtain from domestic sources. A developed country, however, is usually able to import exactly what it wants, and where necessary to adapt the technology to its own requirements. This capacity is available because there is a substantial system for developing technology domestically. Adaptation is more than a traditional stage on the road from import to domestic generation; it is also the capacity that makes possible both effective acquisition and mastery of foreign technology and an effective research and development system.

76. Imported technology has to be adapted to local materials and equipment. In a number of cases, the technology has to be scaled down to the size of the local market and adapted to available local skills, for example by increasing the unskilled labour intensity of a project. Adaptation is also the means of linking imported technology to domestic research and development.

C. Building up of domestic technology research and development

77. The progressive building up of research and development is the core of a developing country's ability to generate its own technology, although research and development is by no means the whole story. Just as important is the whole climate for innovation, which depends on attitudes and motivation throughout the economy. There is a distinction between basic and applied research on the one hand, and development on the other, the latter being the essential step after the laboratory in scaling up the process by means of a prototype and testing its effectiveness before production on an industrial scale.

78. Research and development requires a group of fully qualified and specialized technologists and associated technicians; a properly equipped laboratory; facilities for building up the prototype and, at that stage, materials, equipment and industrial labour; and, throughout, considerable financial resources. It should again be stressed that the cost of development is several multiples of that of research and that in all developing countries (including India, despite the long strides it has made in science and technology) development is the weakest link in the chain.

79. Research and development may be carried out in a university or in a semi-autonomous body linked to a university. It may be the responsibility of a government department or of a semi-autonomous body linked to a government department, including a State enterprise. It may be carried out by an industrial enterprise, public or private, or by an industrial association.

80. The financing of research and development in developing countries is overwhelmingly derived from government sources. This is to a large extent inevitable, although it has the disadvantage of the uncertainties associated with annual government budgeting. This is one reason why an approach that offers the prospect of longer time spans applies not only to programming but also to financing.[25] Financing by annual levies on industrial output is also common in developing countries, and has been tried in Peru.[26] The director of a research and development organization should obviously have high scientific and technological qualifications, as well as ability to manage and to lead a team; but equally important, he should have both industrial experience and entrepreneurial flair. In developing countries persons meeting these criteria

[24] See UNCTAD, *Handbook on the acquisition of technology by developing countries*, (United Nations publication, Sales No. E.78.II.D.13), chaps. I and II.

[25] For details on the financing of research and development in the five countries that have published science and technology plans, see the note by the UNCTAD secretariat, "Technology planning in developing countries: a preliminary review" (TD/B/C.6/29 and Corr.1), May 1978, chap. II.

[26] See *Handbook on the acquisition of technology...*, chap. VIII.

tend to be scarce, and those who are available may not necessarily have the particular talents required to inspire a team seeking to generate technology relevant to a country's development policy. In every country, however, persons with energy, imagination and practical innovative skills are constantly emerging; they start by repairing vehicles when the major spare parts are not available, or by finding new ways to develop construction materials from local resources, or by working in a small chemical plant.

81. The same approach should govern the recruitment of the rest of the staff required, allied with solid educational and professional qualifications at each level, namely: professional scientific and technical staff; technical assistants; technicians.

D. Technical services

82. The crucial element in the process of generating domestic technology and making the best choice and use of imported technology is consultancy services. These are normally classified as technical services, most of which are provided by consultancy organizations themselves, namely:

Consultancy, design and engineering;
Information services;[27]
Standardization and quality control;[28]
Geological, geophysical, meteorological and natural resources surveying and mapping;
Education and training of high level technological manpower (see chap. VI).

E. Consultancy, design and engineering

83. At the heart of the process of developing domestic technology on a comprehensive basis are the functions performed by consultancy organizations.[29] The services of such organizations are normally classified in five main groups: (*a*) design and engineering services; (*b*) technological services; (*c*) economic services; (*d*) management services; (*e*) training programmes.

84. Design and engineering services for an industrial project normally comprise the planning and implementation of a project through its successive stages: preparation of the technical feasibility study; plant design, including blueprints and drawings; preparation of tender documents and evaluation of bids, where tenders are made; supervision on behalf of the client—whether State or private—of the construction of buildings and installation of equipment; assistance in start-up and initial operations.

85. Technological services consist of: raw material studies; product and process development; information services; quality control and testing; standardization; and a variety of activities related to use of renewable resources, of by-products and of waste material. Economic services include preliminary and economic feasibility studies. Management services relate to production planning and control, operations research, inventory control, material handling, manpower planning, cost accounting, data processing, etc. Training programmes in this context refer to the services provided by consultancy organizations for the establishment and implementation of such programmes at all levels—executives, foremen, skilled operatives, etc.

86. Consultancy has to be built up step by step, depending on the size of the country and the sectoral breakdown of production, both present and planned. The road taken is therefore bound to differ from one country to another; this is also true of the degree of comprehensiveness of the consultancy services that can be attained at the national level.

87. Generally, however, there are several stages of development. The first is employment of draughtsmen, engineers and designers. The second is co-ordination with machine building and generation of mastery of many skills beyond standard engineering, which leads to working with the research and development sector and with plant contractors (a large firm in a developed country usually has its own consultancy department). The third is the emergence of independent multidisciplinary consultants able to carry out all the functions described above, and in addition to play an increasingly active role in stimulating both research and development and machine building. At this final stage economies of scale arise, leading to specialization.

88. Consultancy is an independent profession, although consultancy organizations may be in either the public or the private sector. In a developing country, however, the government has a particular responsibility for such organizations, whether they are in the public or in the private sector. The reason is that consultancy may be regarded as an infant industry in which, owing to the effects of training, the structure of costs and benefits is not the same for the private client as for the community. Individual enterprises may be reluctant to promote consultancy owing to the costs, but the rate of development of domestic consultancy should not be left to them alone, since they are not in a position to assess the gains to the economy as a whole. It should also be remembered that consultancy, which relies wholly on skills, is labour intensive, and that salary and wage levels in developing country firms are considerably lower than those in firms in developed countries; it is thus particularly susceptible to import substitution, if necessary through protection.

F. Impetus given by consultancy to domestic development of technology

89. The impetus provided by the establishment and progressive expansion of local consultancy to the development of domestic technology in the widest sense of the term many be summed up as follows:

(*a*) Promotion of research and development through:

(i) Identification of specific immediate and long-range problems facing industry in research and investigation;

(ii) Identification of areas for development of new processes and products suited to local raw materials;

[27] *Ibid.*, chaps. VIII and IX.

[28] See the study by the UNCTAD secretariat, "Impact of standardization and quality control on the transfer of technology in developing countries" (TD/B/C.6/30), May 1978.

[29] This part of the chapter is based on "National design and engineering organizations: their role in strengthening the technological capacity of developing countries", study by the UNCTAD secretariat in co-operation with V. R. Sashital (TD/B/C.6/35), October 1978.

(iii) Evaluation of the techno-economic potential of the processes developed in research and development establishments;

(iv) Provision of design and engineering services for translating the results of research during pilot plant trials and commercial scale production;

(*b*) Constant building up of domestic technical competence and capability by harnessing domestic technical inputs and resources to the development effort, thus reducing the country's dependence on and vulnerability to imports of technology and accelerating the process of national technological self-reliance;

(*c*) Promotion and commercialization of technology by evaluating the techno-economic potential of the processes developed in research and development establishments and translating the results of applied research into commercially viable projects;

(*d*) Assistance in choosing technology appropriate to local raw materials and requirements and in unpackaging foreign technology to ensure maximum use of local technology, equipment and materials; this leads to import substitution, reduction in foreign exchange expenditure, and increase domestic equipment inputs (technology, design, construction);

(*e*) Promotion of domestic construction and equipment industries. Examples of the link with machine building in the specific context of a developing country are as follows: in the agricultural sector, agricultural machinery, hand tools, animal-drawn implements, sprinklers, pumps, sprayers, driers and small-scale internal combustion engines; in the food processing industry, simple machinery for mixing, shaping, sizing, packaging, heating, refrigeration, dehydration, fermentation and extraction.

G. Demand for domestic technology

90. In concluding this chapter on activities and institutions that foster the development of domestic technology, some reference has to be made to the importance of policies that promote not only a steadily growing total national income but also its more equal distribution—although this is a vast subject, with ramifications far beyond the scope of the present study.

91. The pattern of income distribution has a direct influence not only on demand for consumer goods but also on demand for intermediate and capital goods. A more equal distribution of income, coupled with strong demand by the public sector for social infrastructure, gives rise to a higher demand for basic food supplies, mass-produced clothing, essential medicaments, housing and the infrastructure associated with school and health service buildings, rather than for more expensive foodstuffs and textiles, luxury consumer goods of all kinds, especially passenger cars and consumer durables, and more elaborate types of buildings; it is also reflected in a different pattern of derived demand for intermediate goods (more complex chemical products, flat steel, more sophisticated building materials and components) and capital goods (more complicated and specialized machinery). The pattern of income distribution has two further important effects. One is that, with a less equal distribution of income, the capital and intermediate goods required are necessarily more complex technologically and many of them have therefore to be imported; the other is that, since the focus of the market is on a relatively small but wealthy segment of the population, demand for capital and intermediate goods tends to decline as the economy grows, with durable consumer goods playing an increasingly decisive role.

92.. Although the quality of the data remains uncertain and the time series for most countries is limited, the essential facts on income distribution during the development process have now been established, starting with the pioneering work of Kuznets, and followed by that of Paukert and, later, by that of Lydall for ILO. The most recent figures are those of Lydall; they show that the Gini coefficient for household incomes (national average) is 0.43 at a *per capita* GNP of $100 (at 1971 prices); 0.46 at both $200 and $300; 0.45 at $500; 0.43 at $1,000; 0.40 at $2,000; 0.38 at $3,000. There is of course considerable variation around these average values.[30]

93. The trend towards more equal income distribution (after a phase in the earlier stages of development when incomes become considerably less equal), as the development process gathers momentum, coupled with the fact that the heavy concentration in the upper brackets—particularly the top 10 per cent or even 5 per cent—is the key feature of the most unequal phase of income distribution, goes some way to explain why the market for intermediate and capital goods has continued to expand in the now developed countries. The fact that the "normal" pattern of change in income distribution has not been followed in some countries that are now fairly advanced on the development path (notably Brazil,[31] Mexico,[32] Colombia and Iran) may also help to explain the relative narrowness of the market for capital and intermediate goods, despite the size and relative degree of economic development of those countries.

CHAPTER IV

Gearing education and training to skill formation

94. The gearing of education and training to preparation for industrial work is a relatively recent phenomenon in the formal education system. Until the nineteenth century, apprenticeship and informal training remained the instruments for developing skills for most manual work,

[30] See S. Kuznets, *Modern Economic Growth: Rate, Structure and Spread* (New Haven, Conn., Yale University Press, 1966), especially pp. 206 *et seq.*; F. Paukert, "Income distribution at different levels of development: a survey of evidence", *International Labour Review* (Geneva), vol. 108, Nos. 2-3, August-September 1973, pp. 97 *et seq.*; and ILO, "Income distribution during the process of development", by H. Lydall, Working Paper WEP 2-23/WP 52, February 1977.

[31] See A. Fishlow, "Brazilian size distribution of income", *The American Economic Review* (Menasha, Wis.), vol. LXII, No. 2, May 1972, p. 391; and G. S. Fields, "Who benefits from economic development? A re-examination of Brazilian growth in the 1960s", *ibid.*, vol. 67, No. 4, September 1977, p. 570.

[32] See W. Van Ginnekeng, "Socio-economic groups and income distribution in Mexico: study on income distribution and employment", paper submitted to the EADI General Conference, Milan, September 1978: "Europe's role in world development" (mimeographed).

largely through imitation and long association with a master. For a time, the industrial revolution tended to lower the level of skill required by the work-force compared with that of former craftsmen, but gradually the system of mass production brought about a diversification of functions and greater specialization. With technological advances, analytical skills were required, as well as more theoretical knowledge; thus informal training was no longer enough. Under the pressure of the industrial sector's growing demand for skilled workers, governments began to provide not only specific vocational training but also general education, particularly reading and reckoning.

95. Since the Second World War, in developed countries, rapid technological tranformation has required workers with more flexibility and, in addition, more thorough theoretical knowledge. Developing countries confronted with a scarcity of skilled personnel, mainly in the high and middle levels, are looking for ways to expand the supply of skilled manpower by education and training, on which they already spend a large proportion of their annual budgets.

A. Features and education and training in developing countries

96. In the now industrialized countries a somewhat elementary system of technical education became an early component of the educational system as a whole. In contrast, in the developing countries, before independence, colonial rule introduced public education to give people access to the culture of the metropolitan country and to attract them into administration. Thus education in developing countries came to be identified with possibilities of access to government employment, which by definition is largely confined to clerical and white-collar occupations. Such jobs, as well as the associated education based on literacy and humanism, have had and continue to have higher social status and prestige in many developing countries than blue-collar jobs, regardless of the nature of the work, level of responsibility, skills or personal qualities required. Rightly or wrongly, white-collar and office jobs were associated during the colonial period with participation in political and administrative power, and that is still the case. At a later stage, professional and technical courses were introduced, but for a long time the social status and prestige attached to technical instruction and jobs remained very low compared with clerical and administrative work.

97. From the beginning, and contrary to what happened in the now developed countries, there has been little connexion between technical education and industry in developing countries; on the contrary, from the outset, the educational establishment and the industrial sector have had their own views on manpower requirements. Although industry as well as education and training have made significant quantitative progress in all developing countries, in many of them the communication gap between the two remains wide. Thus industry has little influence on the education of the manpower it needs; it remains outside the educational system, of whose "products" it is a passive "consumer". The unreformed educational system continues to serve and respond to social demands inherited from colonial times, rather than to industry's requirements. This goes far to explain the criticism by industrial circles in developing countries that technical institutions are not producing the right type of engineers and technicians needed for design, construction and production, to say nothing of technological innovation, and reinforces the tendency of industrialists to rely on foreign personnel.

98. As to the content of curricula in developing countries, in Africa, for example, university undergraduate courses in pure and applied sciences are largely carbon copies of French, Belgian and British courses.

B. Skill formation

99. Education and training comprise all activities in schools or in employment deliberately designed to prepare personnel for industry, agriculture, commerce and government. The focus is on preparation for the attainment of economic development goals, which call for increasing total and *per capita* output and income through adoption of more modern methods of production. The skills required for the use of modern technology may be broadly divided as follows: managers (administrative, production, financial and accounting), lower administrative personnel (clerks and secretaries), engineers (mechanical, electrical, civil, chemical and process), technicians, skilled workers and semi-skilled workers.

100. Of these, semi-skilled workers are the easiest to train, because they perform narrowly defined repetitive work with specific equipment. Unskilled workers can be trained to become semi-skilled through on-the-job training lasting from a few days to some weeks, depending on the task. The skills of these workers are highly machine specific, and cannot easily be transferred from one branch of industry to another. Strictly speaking, their work does not demand even primary education.

101. Semi-skilled and unskilled workers together constitute about three-quarters of the employees in the modern industrial sector in developing countries. They have at present very little opportunity of acquiring any skills worth the name.

102. A skilled worker by definition is proficient in one or more of the numerous basic industrial crafts. In general, he does his job with the help of hand tools and multipurpose equipment. Skilled workers do routine repair and maintenance work on a variety of specific and multipurpose machinery. They also produce simple spare parts using machine tools. They learn their skills either entirely on the job over a period of a few years, or spend a year or two in a vocational school after receiving a general primary education, supplementing formal training by practical experience. Older skilled workers have usually taken the first route, younger ones the second. The current tendency is for formal general education and formal vocational training to be required for entry into the category of skilled workers in modern industry. Skilled workers in modern industry in developing countries account for 10–15 per cent of the total number of employees in manufacturing.

103. At this point reference should be made to skilled workers in the traditional sectors in developing countries. They too are proficient in several kinds of craftwork, but have to work solely with simple tools. Their numbers are several times higher than those of skilled workers in modern industry and they form a significant basis for the skilled worker category in industrial enterprises.

104. Those who are formally trained for about three years in basic engineering skills (as opposed to full university-type engineering courses of several years' duration) are generally known as technicians. They have completed at least a full primary education, and occasionally a partial or general secondary education, before entering vocational training schools. Ideally, their work consists of diagnosing and correcting major faults in a variety of sophisticated equipment, and ensuring liaison between engineering planning and design, leaving the execution of design to skilled workers. In practice they are often foremen and supervisors, exercising both technical and social control over skilled, semi-skilled and unskilled workers. Technicians account for roughly 5 per cent of the manufacturing work-force. The formal training of engineers, managers and lower administrative personnel is sufficiently well known not to need description here. These categories account respectively for about 1 per cent, 1 per cent and 5 per cent of total manufacturing manpower.

C. Policies and measures to integrate education and training

105. For education and training to contribute more effectively to increasing technological capacity, the principal measures would seem to be to:

(*a*) Make scientific education more responsive to the needs of the country and to use science and technology effectively in the achievement of national goals;

(*b*) Stimulate scientific and technology education and careers so as to increase the number of scientists, technologists and technicians;

(*c*) Reinforce the social status and prestige of technical and technological work;

(*d*) Emphasize and stimulate imaginative inquiry and independent learning at the expense of dogmatic assertion and memorizing of facts.

106. Governments generally have available a series of technical means and tools for achieving the general goals set out above: control of the educational system, propaganda, monetary incentives such as subsidies and tax deductions, access to public facilities, loans at favourable or unfavourable rates and terms and, finally, legal sanctions. All these tools give developing country governments the possibility to reform the educational and training system both qualitatively and quantitatively, to relate it to the industrial and other economic sectors, and in particular to engage in manpower planning.

107. In practical terms, the key element in the adaptation of education and training to the needs of the economic sector is "linkage" i.e. institutional devices for facilitating continuous intercommunication and mutual assistance among representatives of the educational system, employers, workers and development agencies. The intention to communicate and co-operate should prevail at the national, provincial and local levels and permeate the everyday thinking of school principals and teachers, industrial managers, officials of government department and leaders in training centres. Only by institutionalizing such continuous communication can the government planning agency obtain the best information on which occupations and industries are declining, expanding or newly developing, and as to the occupational structure of different industrial and other economic sectors.[33] Indeed, the industrial growth of any developing country depends in large part on the availability at the appropriate time and place of workers with the necessary skills.

108. The major policy instrument is manpower forecasting and planning, the promotion of a balance between future demand and supply of manpower, both globally and in specific sectors and branches. Manpower forecasting and planning help to determine the general growth of the labour force and its effective utilization; the planning of education and vocational guidance respectively influence the skill composition and the supply of manpower.[34] Long-range studies are therefore needed to formulate and implement enrolment policies based on estimates of labour needs for economic and technological development.[35] However, in the case of short-term and medium-term imbalances, some solutions are available: transfer or surplus manpower from one sector of employment to another in which there is a manpower shortage, i.e. adult "recycling";[36] provision of incentives in the form of scholarships, subsidies and other measures to attract students to the critical areas of the economy; discouragement of enrolment in areas of surplus manpower through policy measures such as more rigorous admission requirements and higher entrance fees.[37]

109. Educational planning in developing countries has still a long way to go, particularly as regards the aspects of the subject briefly surveyed in the present chapter. This is an area where much more research is urgently required.

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[33] See M. Carnoy, *Education and employment: a critical appraisal* (Paris, UNESCO–IIEP, 1977).

[34] See UNESCO, *Educational planning: a world survey of problems and prospects* (Paris, 1970), pp. 51-53.

[35] See P. H. Coombs, *What is educational planning?* (Paris, UNESCO-IIEP, 1970), especially parts 3, 4 and 5. See also, S. Bowles *Planning Educational Systems for Economic Growth* (Cambridge, Mass., Harvard University Press, 1969), chaps. V and VI.

[36] See OECD, *Continuing training and education during working life*, papers for an international conference, Copenhagen, 7-10 July 1970 (Paris, 1971).

[37] For a comparison of policies and experience in Japan, India and China, see D. Adams, *Education and modernization in Asia* (Reading, Mass., Addison-Wesley, 1970). For a comprehensive view of the policies and experience of African States, see A. Moumouni, *L'éducation en Afrique* (Paris, François Maspéro, 1964), and L. G. Cowan *et al.*, eds., *Education and Nation-building in Africa* (London, Pall Mall Press, 1965).

PART TWO

Formulation of a plan for technological development

CHAPTER V

Progress towards technology planning in certain developing countries

110. Technology planning should perhaps be regarded as the final stage in a process that starts with national action to control imports of technology, leads on to the formulation and adoption of a coherent and integrated technology policy, with a corresponding network of co-ordinated institutions, and culminates in technology planning the framework of development planning.

A. National action to control technology imports

111. The first attempts by developing countries to control technology imports go back hardly a decade. In *India,* in 1969, the guidelines on policies and procedures for foreign collaboration agreements provided for a selective approach to technology imports, with limits on the equity capital that could be held by foreigners (exceptions being made when the technology sought could be obtained in no other way), limits on royalties, and prohibition of restrictive clauses. In *Brazil,* imports of foreign technology embodied in machinery are controlled by the Department of External Commerce (CACEX) of the Bank of Brazil. Other transfers of foreign technology are controlled by the National Institute of Industrial Property (INPI), which was established in 1971 under the Ministry of Industry and Commerce. INPI is concerned only with contractual agreements, i.e. payments and conditions. It is not concerned with evaluation in terms of employment, foreign exchange or suitability of technology; its small staff consists of lawyers and economists. It has no links with the organs responsible for controlling foreign investment or with those engaged in developing domestic technology.

112. In accordance with Decision No. 24, adopted on 31 December 1970 by the Commission of the Cartagena Agreement, the five member countries of the *Andean Group* (Bolivia, Chile, Colombia, Ecuador and Peru), later joined by Venezuela, established a common regime for foreign capital, trade marks, patents, licensing agreements and royalties. Decision No. 24 established norms to be followed by each country within the basic objectives of the Andean Pact: harmonization of economic development, and in particular of industrial development, and promotion of trade among members. It was left to each country to determine its own institutional framework, and the Decision has undoubtedly had some impact in this respect. But the main emphasis seems to have been on reducing excessive charges for imported technology; Colombia's success in reducing payments made via transfer pricing in the pharmaceutical sector has frequently been cited. Changes in basic economic policy in some countries, which have weakened the Andean Pact, have also had their effect in limiting progress towards the setting up of comprehensive technology policies and institutions. Chile has withdrawn from the Pact and Peru has moved towards a more liberal regime with respect to foreign investment.

113. In *Argentina,* legislation was enacted in 1972, inspired to some extent by Decision No. 24 of the Andean Group; this led to the registration of technology transfer contracts, but without evaluation. The following year foreign investment laws were introduced, but there was no provision for linking control of foreign investment with that of imported technology. By this time responsibility for registering technology contracts resided in the National Institute of Industrial Technology, a step in the direction of relating imports of technology to technologies produced domestically. Prior to 1973, the role of the registry had been advisory, but a law passed in that year, which became operative the following year, reinforced its powers by providing for royalty ceilings and restrictions on foreign trade marks. A change of government led to a much more liberal approach to foreign investment and technology. The registry was transferred to the Ministry of Industry and has become less active; there have also been further changes in legislation, so that control of imported technology has become more formal in character.

114. In *Mexico,* the Registry began operations in 1973, and was to become a model for the approach to control of technology imports in developing countries. The focus is on registration of all contracts, elimination as far as possible of restrictive practices, limitation on payments for technology, evaluation of technology and establishment of administrative guidelines to ensure that imported technology makes a positive contribution to national development. But there has been insufficient linkage and interaction among the different Mexican institutions concerned with technology transfers, in particular the Registry for the Transfer of Technology, the Registry for Foreign Investment and the Industrial Property Office. New arrangements have recently been announced in this respect, but in the context of a more open approach to foreign investment.

115. Screening of imported technology has gradually evolved in the *Philippines* since the early 1970s, but the system is still somewhat ill-designed. The Central Bank plays a certain part through a ceiling on royalties, a maximum rate in trade mark agreements, prohibition of export restrictions and a fixed duration for technology transfer agreements. The Board of Investments has worked out guidelines based on three major considerations: essential need for the technology by the industry concerned and the national economy; costs of the technology; and restrictive practices. A technology transfer and development unit in the Department of Industries undertakes technical, economic and legal evaluation of agreements with a view to the unpackaging of technology and the inclusion, where possible, of local technology. The *Republic of Korea* has set up a technology transfer centre within the Korean Institute of Science and Technology; the main emphasis at present is on controlling the high rate of growth of payments for foreign technology and diversification of sources of such technology, obtained at present mainly from one country.

116. By the middle of the 1970s several of the more advanced developing countries, i.e. those referred to above, could be said to have significantly improved their bargain-

ing position as technology importers. Most of these countries–and some others–had by then a variety of research and development institutions. Yet the linkage between imports of technology and promotion of domestic capability was—and remains—nonexistent or ineffective. Even with regard to the acquisition of foreign technology, there is little linkage among the various institutions directly or indirectly involved in the drawing up and implementation of technology policy, i.e. those concerned with development planning and policy, with finance, with foreign investment, with the preparation and appraisal of projects in different economic sectors (especially in industry), or with education and training.[38]

B. Towards technology policies

117. By its resolution 87 (IV), on strengthening the technological capacity of developing countries, the United Nations Conference on Trade and Development recommended that developing countries should establish national centres for the transfer and development of technology, and decided that an advisory service on transfer of technology should be established within UNCTAD. A new impetus was thus given to the evolution within developing countries of more integrated and effective technology policies and institutions, and a beginning made in providing them with assistance to that end.

118. UNCTAD preparatory missions, some of which have already led to follow-up action, have taken place in several countries–Afghanistan, Egypt, Ethiopia, Iraq, Sri Lanka, Thailand and Venezuela.[39] Further such missions have been requested, for example by the Governments of Burundi and Somalia. If the general themes arising in connexion with the acquisition, adaptation and domestic generation of technology by developing countries are necessarily the same, the specific policies and, still more, the institutions established, differ according to national circumstances. Thus Ethiopia and Iraq, which are building socialist economies, are setting up national centres with considerable executive powers. Other countries envisage centres having more of an advisory and co-ordinating role, as is the case with Sri Lanka and Venezuela.[40]

C. From technology policy to technology planning

119. In the mid-1970s, five developing countries–Brazil, India, Mexico, Pakistan and Venezuela–drew up and published science and technology plans.[41] As will be seen from their titles, each plan is concerned with both science and technology. However, the definitions used, even of the terms "science" and "technology", are not explicit and in fact fall short of what is desirable (see paras. 27 and 28 above).

120. In each of the five countries the plan is preceded by an analysis, by the authorities who drew it up, of the main weaknesses of the hitherto prevailing arrangements for the transfer and development of technology. On the whole, these analyses reflect a recognition that there has been too much emphasis in the past on a somewhat general, even abstract conception of science, at the expense of technology harnessed explicitly to development.

121. In each country the drawing up of the plan has resulted in the setting of a target for research and development and related activities, and for the most part for education and training, which represents a marked advance on previously prevailing arrangements. Although exact comparisons are not possible owing to differing definitions, it is significant that in four of the five countries it is intended to increase to 1 per cent of GDP the proportion of expenditure on research and development. There is no magic in this figure, but it is generally regarded as the threshold for an effective national research and development effort, partly on the basis of experience of developed countries and partly because it is realized that, if research personnel and equipment are spread thinly over many projects, the impact in terms of results is likely to be limited. This may seem a relatively small amount in relation to needs, yet is represents a threefold to fivefold increase for the countries concerned. It also means that the ratio of research and development to fixed capital formation will be about 5:100, and still higher in the manufacturing industry.

122. In each country the drawing up of the plan has resulted in quite far-reaching proposals for new or revised institutional arrangements, although it is difficult at this stage to say how effective these institutions are likely to be. The main emphasis, as is to be expected, is on new mechanisms for the generation of domestic technology. Less attention appears to be paid to the need for better screening of imported technology, its evaluation, its adaptation to local requirements and, in particular, to the need for an organic link between imported and indigenously developed technology, especially technology imported through foreign investment.

123. In the main, the part of each plan that is devoted to education and training is somewhat general in character.

[38] See the report by the UNCTAD secretariat, "Action to strengthen the technological capacity of developing countries: policies and institutions" (TD/190/Supp.1), para. 26, reproduced in *Proceedings... Fourth Session*, vol. III, *Basic documentation* (United Nations publication, Sales No. E.76.II.D.12).

[39] Reports on these missions, available or forthcoming, are: "Transfer and development of technology in Afghanistan" (UNCTAD/TT/AS/3); "Transfer and development of technology in Ethiopia" (UNCTAD/TT/AS/4); "Transfer and development of technology in Iraq" (UNCTAD/TT/AS/2); "Transfer and development of technology in Sri Lanka" (UNCTAD/TT/AS/5).

[40] For an account of different approaches to establishing integrated policies for the transfer and development of technology, and a summary of the recommendations of the missions referred to above, see UNCTAD, *Handbook on the acquisition of technology...*, chap. IX.

[41] Brazil, Presidency of the Republic, *Plano Básico de Desenvolvimento Científico e Tecnológico, 1973/1974* (Brasilia, 1973); *idem, Basic Plan for Scientific and Technological Development, 1976-1979* (Brasilia, 1976); India, National Committee for Science and Technology, *Science and Technology Plan, 1974-1979*, 2 vols. (New Delhi, 1974); Mexico, Consejo Nacional de Ciencia y Tecnología, *Plan nacional indicativo de ciencia y tecnología, 1976-1982* (Mexico City, 1976); Government of Pakistan, Scientific and Technological Research Division, *Prospects for National Science and Technology Policies, 1976-1981* (Karachi, 1976); Venezuela, Consejo Nacional de Investigaciones Tecnológicas, *Primer Plan Nacional de Ciencia y Tecnología, período 1976-1980* (Caracas, 1976). (These plans are summarized and analysed in their economic and historical context in document TD/B/C.6/29 and Corr.1, chap. III).

124. The allocation of resources by sectors is dealt with in a very general way, except in the case of India, so much so that nearly all sectors of the economy are referred to and hence that limited significance can be attributed to the concept of priorities; even in India the allocation of resources by sectors and subsectors does not seem to be based on any clearly established method.

125. The technology plans indicate the method used in drawing them up, in terms of the country's development plan or strategy, but the relationship between the technology plan and the development plan or strategy is tenuous. This is hardly surprising in view of the fact that four of the five countries have not proceeded very far with development planning as such. It follows that the arrangements for implementation of the technology plan are quite limited, so that only a few countries have begun to work out comprehensive and integrated policies for the transfer and development of technology, and to establish and create links between the corresponding institutions. This deficiency has its origin in part in the idea of a plan for "science". A plan for "science and technology" is certainly a step forward in the direction of harnessing technology—and ultimately science—for development. However, as the remaining chapters of this study will attempt to show, what is more important still is the emergence of a capacity for technology planning.

CHAPTER VI

Status and main components of a technology plan

126. The previous chapters have discussed the different tasks involved in technology development, principally imports, unpackaging and adaptation of foreign technologies, strengthening of national technological capacity, development of indigenous technologies and training of skilled manpower. The role of different agencies—much as universities, applied research institutes, research and development laboratories, extension services, experimental stations, consultancy services—in the performance of these tasks has also been seen. The agencies that carry out these activities may be, for example, government departments or parts thereof, government-financed autonomous or semi-autonomous bodies, domestic or foreign private firms and non-profitmaking public bodies. However, responsibility for co-ordinating all these activities and regulating the different agencies cannot but fall on the government. Allocation of resources is also, as has been shown, a task for the government, since in developing countries few—if any—private resources are available for technology development.

127. The instruments governments require for effecting such regulation and co-ordination range from physical and financial target-setting for activities and agencies directly under their control to the entire gamut of instruments of indirect influence such as tax exemption, credits and grants. In this matter, the dependence of the choice of instruments on the degree to which different agencies are amenable to government control is of the same nature as in the sectors of production and investment.

128. In so far as technology development calls for the creation of a climate and environment conducive to orientating technical and management personnel and economic administrators towards the adoption of technologies more suited to the needs of the country, and in so far as workers' innovation is regarded as having an important part to play in technology development, governments have to formulate and adopt appropriate policies on manpower training as well as management and administration training.

129. In addition to the measures of economic policy mentioned above, the government also has to use legal instruments, for example in transactions between foreign and domestic firms, or in the control of patents, trademarks and restrictive practices generally.

130. If there is an over-all economic development plan, all the feedback effects of activities concerned with technology development, whether in the form of requirements of materials, investments or manpower, have to be dealt with by the government.

131. These roles that government is expected to play in the promotion of technology development have given rise to the idea of technology planning. Of course, there can be technology development without technology planning; until recently, all technological development took place without such planning. The case for technology planning is the same as for economic development planning in general. Countries have also developed in the past without the help of over-all economic planning. Nevertheless, since the end of the Second World War, it has become a generally accepted tenet that development in the modern world requires that governments of developing countries should play a leading role within a coherent framework of policies and activities known as planning. In the same way, it is being increasingly realized that strengthening the technological capacity of a developing country requires a framework of policies and activities for the government which may be called a technology plan.

132. Technology is an integral part of the economy; every action relating to production and investment involves the use and therefore the choice of technologies. The question arises, therefore, how there can be a technology plan distinct and differing from the plan for production and investment that constitutes the economic development plan. The concept of a technology plan as understood in this study is explained in the following sections.

A. Status of a technology plan

133. The concept of technology planning should be placed in relation not only to the concept of development planning as a whole, but also to such concepts as education planning, health planning, manpower planning and transport planning. In theory, an economic development plan should provide simultaneously for all aspects of social and economic development; and of course education plans, health plans and transport plans are not and cannot be independent of each other or of the economic development plan. Development in any one of these areas interacts with development in all the others. But neither in practice nor in theory is it possible to deal with all these aspects of development together. From a practical point of view, each poses a complex set of problems that call for concentrated attention by specialists who, by definition, cannot have the competence or capacity to tackle the problems of other sectors.

134. From a theoretical point of view, the justification for separate plans for these different problem areas arises out of the undeniable fact that no theory of planning exists so far that can take account of the intricacies of the problems of all these areas in a single exercise. The most sophisticated mathematical planning models—those using input-output or linear programming models—are in fact models not for the economy as a whole but for only a relatively small part of it, namely, the industries producing goods by making use of other goods, in accordance with the production capacities in these sectors. Sectors such as education, health, transport, the professional services, and research and development are treated as "exogenous". It is simply not true that plan models can "resolve" the problem of investment allocation to those sectors, or take account of the feedback effects from these sectors.

135. As a matter of fact, even for the endogenously treated goods-producing sectors, all that mathematical models can ensure is a consistent, at the most an "optimal" (or economically most efficient), combination of production levels for a given time point. Capital formation even in these goods-producing sectors cannot be tackled satisfactorily, since it has to take place over time, and the phasing of capacity expansion is a problem that still eludes fully satisfactory treatment in any mathematical model of planning. Apart from time phasing, even the problem of total investment allocations to the different sectors cannot be fully "resolved" endogenously by a mathematical planning model. That is because there is always a time lag (the gestation period) between the act of investment and the capacity expansion resulting from it. Hence current investment activities can be related to current production only through one-way linkage—the goods necessary for carrying out the investment activities. But the other linkage—that between capacity expansion and increased production of goods resulting from increased capacity expansion—cannot be endogenously treated in any finite horizon model. (This is recognized in theory as the "terminal year problem".) An infinite horizon model can by definition take account of all linkages, whatever the time lags. But infinite horizon models are of no practical use for plan-making purposes.

136. It is because of this time factor, together with the requirement for specialized information, calling for the services of experts in each area, that separate plans are needed for different broad problem areas. Educational planning has to take into account the different lengths of time called for by different kinds of courses, some of which have to be in sequential order. Road planning has to take account of the fact that roads are intended to last indefinitely. Improvement in the quality of breeds of animals has to take into account the time gap between successive generations. None of these different time lags and interdependencies can be dealt with effectively in any programming model that ensures horizontal consistency or optimality.

137. It is for such reasons that in practice, and no matter what form of over-all economic development planning is employed, separate plans are normally made for particular areas. In India, alongside an over-all economic development plan, there are water management plans, power-cum-transport plans, education plans, etc., some with time horizons extending up to 20 years (whereas the economic development plans have always been for five years). In the motherland of over-all economic development planning, the USSR, an electrification plan was undertaken in the early 1920s well before over-all economic development plans came to play any part.

138. The foregoing paragraphs have shown the need at a practical level for plans for separate problem areas. At the level of theory, recognition of the need is found in the literature on decentralized planning. But however fascinating and challenging the theoretical problems of decentralized planning may be, it has to be recognized that no planning system in any country has as yet been able to make much progress in putting this theory into practice.

139. In strict theory, a technology plan cannot but be *an integral part of an economic development plan*. In practice, however, the problems of technology development have to be tackled as a task in itself. It is not true that the feedback effects of technology development can all be incorporated in current production and investment plans, owing to the time lag—often uncertain—between technology development efforts and the probable results thereof in the form of innovations. And for that very reason it is also not true that the allocation of resources for technology development can be derived from an economic development plan. They have, however, to be provided; resources have to be allocated to technology development out of the over-all resources available for the economic development plan. Similarly, in setting production targets, the probable results of technology development have to be kept in mind. The point to be emphasized is that the technology development plan cannot be expected to emerge as a by-product of the economic development plan; it has to be worked out separately.

B. Main components of a technology plan

140. This section presents in a somewhat schematic fashion the different parts that an ideal technology plan should comprise.

1. *Identification of technological areas or sectors*

141. A technology plan should first identify a number of technological sectors or areas. The sectors should be so demarcated as to make them relatively homogenous from a technological point of view. The classification could conceivably differ from that used for grouping products or industries (as in inter-industry tables or plan models). The sector classification need not be exhaustive: certain activities in the economy can be left uncovered by any sector. The sectors to be considered are those which, *a priori*, are areas with potential for technology development. These target areas would differ, of course, in different countries and would depend on the stage of technological development attained.

2. *Profiles of existing technology*

142. The technology plan should present a reasonably comprehensive profile of the existing technology in every such sector, in both quantitative and qualitative terms. It should describe the existing stage in practical terms: processes, machinery types, vintages, etc. For every sector there should then be a discussion of the economic aspects of the different methods of production in use in terms of costs and benefits.

3. *Institutional facilities for technological development*

143. There should then be a critical account of the institutional facilities that might already be in existence for promoting technological development in each sector. These institutional facilities should include extension services, experimental stations, research and development–laboratories and consultancy services, as well as various agencies for the propagation and diffusion of technological information.

4. *Technology policy by sectors*

144. This should be followed by a statement of technology policy for each sector. This policy would naturally be related to, and derived from, the over-all technology policy for the country, which should provide the basis for the entire technology plan. But it should indicate in clear terms whether the sector is to be treated as a priority area for technology innovation/adaptation or not.

5. *Short-term targets*

145. Next, the following short-term quantitative and qualitative targets should be established:

(*a*) Additional capacity creation for different types of activities pertaining to the sector, namely:

(i) Capacity requirements to fill the gap between increased demand and diminished capacity of the pre-existing stock of capital;

(ii) Capacity requirements to compensate for such obsolescent capacity as it may be decided to scrap;

(*b*) Parts of the additional capacity requirements that could be met by new installed capacity, incorporating:

(i) Freshly imported technologies (to be specified);

(ii) Unchanged pre-existing technologies (to be specified);

(ii) New technologies (imported and adapted/pre-existing, but improved, and adapted/new, indigenously developed), whose availability can be more or less taken for granted.

6. *Long-term projects*

146. The plan should then move on to projects of a more long-term nature, of the following kinds:

(*a*) Projects designed to improve and adapt imported technologies. Technologies should be specified, as well as the improvements and adaptations sought;

(*b*) Projects for the improvement and modification of technologies already in use. Again, the technologies should be specified, as well as the improvements and adaptations sought;

(*c*) Projects for the improvement and modification of craft technologies (with the same proviso);

(*d*) Projects for the development of technologies not already in use (indication should be given regarding the benefits aimed at and the probable costs).

Each of these projects should be presented together with the techno-economic reasoning justifying its inclusion in the plan. The plan should also specify where the innovative activity is to take place, e.g. in research and development institutions, other research laboratories, workshops and factories.

7. *Manpower training programmes*

147. The technology plan should also incorporate both long-term and short-term programmes for the training of manpower required to meet the short-term and long-term targets and projects under headings 5 and 6 above. For example, if a new technology has to be imported, the plan must ensure that there is the necessary personnel for using that technology. Similarly, if it is decided, under heading 6, to leave out for the time being innovative efforts in, for example, the electronics sector, and to include projects for the development of new varieties of high-yielding seeds, the technology plan should provide for training programmes for agronomists, and not for the training of too many electronics engineers.

8. *Instruments for implementation*

148. The technology plan should provide for the instruments that the government proposes to use to meet the short-term and long-term targets. Some of the measures that have to be taken to meet the targets may involve public sector agents; others, private sectors agents. If the short-term targets and the long-term projects are not to remain on paper only, the plan must provide for policy instruments that the planning authorities can wield, directly or indirectly, to induce the agents to carry out the plan.

CHAPTER VII

Allocation of resources

149. A valuable part of the tradition of a liberal society is that the choice of a research project in any sector should be left as far as possible to the researcher–what has been called "self-oriented" research. This principle is found to be increasingly in conflict with the need for "customer oriented" research. Much research is impossible without resort to the public purse, where the State is entitled to have a say, and often a predominant say, in what shall be done with the funds. Liberal societies recognize that in pure science, as in philosophy or mathematics, free rein has to be given to speculation and that therefore, although the public funds required may be substantial, there has to be provision for substantial autonomy in the running of the research body and its choice of programmes. The situation is different, however, for applied research and development, which leads to the generation of technology. Controversy has continued as to how far the tremendous strides made in the last few decades in scientific and technological progress have been primarily the result of the continuing capacity of mankind to invent, or rather of increasingly organized and increasingly State-funded–even in market economies–research and development. The protagonists of the second view have had the better of the argument, so much so that it is now common to talk of the "research and development industry".[42]

[42] See C. Freeman, "Economics of research and development", in I. Spiegel-Rösing and D. de Solla Price, eds., *Science, Technology and Society: A Cross-disciplinary Perspective* (London, Sage Publications, 1977), p. 223.

A. Allocation of resources in developed countries

150. Expenditure on research and development in the United States of America and Western Europe has grown very rapidly over the last 20 years. The most recent estimates (1975/76)[43] of the percentage share of research and development expenditures in GNP in a selected number of countries are shown below.

Developed market economy countries		*Socialist countries of Eastern Europe*	
United States of America	2.7	USSR	4.9
Federal Rep. of Germany	2.3	Czechoslovakia	3.9
Switzerland	2.3	Poland	2.3
Japan	2.1		
United Kingdom (1972)	2.0		

151. A large part of total research and development expenditures are financed by government, even in developed market economy countries. While the share of research and development in GDP may appear to be rather high, it is to be noted that a sizeable part of it is devoted to military and space research. The distribution between basic and applied research is not readily available, although some studies have touched upon this particular issue.[44]

152. Resources devoted to basic research and to research and development in the USSR are comparable, relative to national product, with those in the United States of America. Nevertheless, the Director of the Institute of Economics of the Academy of Sciences is quoted as saying[45] that "the planning of scientific and technical progress... is the weakest link in the whole complex of economic planning and in the whole system of material incentives for production".

153. It may be safely assumed that in the developing countries a still larger share of the resources directly devoted to technology development have to come from the government, irrespective of the location of the activity. That being so, some principles have to be proposed for the allocation of resources to this particular area of activity; otherwise, scarce resources will be squandered in the name of research. Scientists and technologists in developing countries are for the most part trained in the sciences and technologies of the developed countries and constitute a privileged élite. Quite often, they lack social commitment and indulge in the luxury of research activities that have little relevance to the needs of the society to which they belong. This lack of social responsibility on the part of scientists is further strengthened by the environment in which they often work and the policies pursued by governments. Quite often, false notions of "prestige" lead developing countries to indulge in large investments in completely non-fruitful areas; this is no less true of investment of resources in irrelevant areas of academic and research activity.

154. There are two parts to the important question of allocation of resources to development of technological capacity: allocation of resources to this activity as a whole, and distribution of these resources among different projects or schemes for technology development.

B. Over-all allocation

155. Allocation of global resources should be related to total resources available for development planning in a manner considered the most reasonable, given the social objectives of planning. The theoretical problem here is analogous to the problems that have to be faced at the global level of an economic development plan: what proportion of the national income should be diverted to capital formation, or what proportion of capital formation should be diverted to the further production of capital goods. The problem here is one of time preference. The higher the rate of savings, and therefore of investment, the higher is the growth rate of consumption in the long run, although with a lower level of consumption in the short run. Similarly, the higher the allocation of investment to the capital goods industry, the higher is the growth rate of consumption in the long term, at the cost of a slower rate in the short term. Analogously, technological development would make for better use of resources, but it would do so with a time gap and with the uncertainty associated with every individual project. Thus, instead of devoting resources directly to production with the technology already available, or to imports of ready-made technology, the same resources could be devoted to the development of some more suitable technology; in the short term, this would necessarily mean forgoing some consumption, but for the sake of an "expected" (in the sense of calculated probabilities) higher rate of consumption in the longer term.

156. It should be recognized that beyond this qualitative statement it is not possible to arrive, through theoretical reasoning, at a quantitative concept of "optimum" or "efficient" allocation. The same is true of the analogous questions of the rate of saving or the allocation of investments to the capital goods industries. In this connexion, it may be borne in mind that the Harrod-Domar type of one-sector model, or the Mahalonobis-Feldman type of two-sector models, are essentially indicative and not operational models that can help a planner to take optimal decisions on the proportion of the national income to be invested, and on the proportion of the investment to be allocated to the capital goods industries. It would therefore not be reasonable to expect to be able to develop an operational model that would indicate the "optimal" proportion of investment to be devoted to technology development.

C. Allocation among sectors

157. The total resources allocated to technology development have first to be subdivided among a number of sectors and then among a number of individual projects within each sector. The first task is to list the sectors. All the sectors of the economy that may feature in an economic development plan need not be taken up for technology development, and some may be deliberately omitted. For example, a developing country may decide not to devote any resources or effort whatsoever to the development of technology in the aero-navigation sector. The sectors scheduled for technology development may also differ from those included in the economic develop-

[43] UNESCO, "Development in human and financial resources for science and technology" (CSR-S-5), April 1978.

[44] See N. Rosenberg, *Perspectives on Technology* (London, Cambridge University Press, 1976).

[45] B. R. Williams, *Technology Investment and Growth* (London, Chapman and Hall, 1967), pp. 148 and 149.

ment plan. For example, in the chemicals sector, the technology development plan may leave out certain modern chemical technologies, whereas the industries based thereon may be included in the chemicals sector of the economic development plan.

158. As a starting point, a rough and ready rule of thumb could be to subdivide the resources among the sectors proportionally to the value added in those sectors by the activities and technologies selected for consideration. This is a common sense criterion for ensuring that the resources allocated to a sector are commensurate with the benefits that might be expected from technological improvements in that sector. Even a highly dramatic improvement in the technological capability of a sector may not be worth the resources devoted to it if the scale of application of the improvement is small because of the scale limitation of the sector itself.

D. Allocation to projects

159. The resources allocated to each sector have now to be allocated among individual schemes or projects within the sector. For this purpose, the projects may be classified into three categories, as follows:

Category A: Those that are almost certain to yield positive results. These would be concerned with improvements to be brought about to known machinery and processes, along well tested lines;

Category B: Those that have a fair chance of yielding successful results;

Category C: Those that are of an exploratory nature, whose chances of success, or benefits in case of success, are unpredictable.

160. For projects in categories A and B, the suggested approach is to evaluate each project in terms of the expected cost-benefit ratio. Benefits can be measured in terms of the increase in value added in the sector to which the project belongs, should it be successfully completed. The ratio of the benefit thus measured to the part of the costs ascribed exclusively to the project may be treated as an index of the worth of the project, if it is one belonging to category A. If it is a project belonging to category B, this ratio can be divided by two to give its index of worth. The projects within a sector may all be arranged in the order of this index. As many of the projects, beginning with the one with the highest index, may then be selected as would make their total cost equal to the amount allocated to projects in categories A and B (see the annex to this chapter for a technical explanation).

161. The method of comparison of expected cost-benefit ratios of projects does not apply to projects in category C, because in these projects the expected increase in value added by sector cannot be calculated, or the probability of success of a particular project worked out. Yet there has to be provision for projects of this kind. Projects in category B are often the result of experience gathered through pioneering or pilot projects in category C. To discount projects of an exploratory nature on the grounds that their results are highly uncertain would be to neglect the very soil in which the plant of technology is to grow. On the other hand, the fact that such explorations are characterized by low probabilities of success makes it uneconomic to allocate too many resources to them. Such projects of a preliminary, exploratory nature, with unspecified and uncertain output, may be called "seed money" projects, and the financial counterpart of the resources devoted to them may be called "seed money" (using project financing terminology).

162. There has to be some means of deciding how much "seed money" to allocate to a particular project. If not, resources may be squandered by research workers engaged in fascinating but not socially beneficial work. It is suggested that the concept of a "minimum" be used with regard to "seed money". A certain minimum of resources may be required for the exploration of a given problem if it is to serve any useful purpose, but usually what happens is that either nothing or much more than the minimum is deployed. Exploratory work at this "seed money" stage should not involve acquisition of new tools or instruments or machinery: personnel engaged in the exploratory research should work with pre-existing facilities. "Seed money" should represent the additional cost for a particular exploratory project, given the availability of all the infrastructural facilities needed for such research. Yet another point to be examined carefully is that there should be no duplication; different researchers in different places should not be working on the same kind of "seed money" projects.

163. If the principle of a "critical minimum" is adopted for allocating "seed money" to a particular project in category C, a similar principle should govern the allocation of resources to all projects in category C of a certain sector, so that a judgement may be made regarding the amount of available resources that can be afforded for allocation to such highly uncertain projects, and the amount that should be allocated to projects in categories A and B, which have almost certain or fair chances of yielding satisfactory results.

164. In actual project selection, planners have to be guided by many practical considerations, important among which is availability of infrastructural facilities and scientific personnel. It may be better not to establish too rigid rules but rather general guidelines for the selection of projects in this category. The best way of proceeding is probably on the basis of trial, error and adjustment.

E. Infrastructural facilities for technology development

165. In deciding upon investment projects for the installation of infrastructural facilities, the cost-benefit approach is not applicable; it is not even possible to resort to the cost-minimization approach, with specified output targets. This is because the output of such infrastructural facilities cannot be identified even in qualitative terms, let alone measured.

166. The starting point for technology planners should be clear ideas about the directions in which the country can realistically expect to advance towards greater technological capability and about the number of fruitful new activities that can be started with the immediately available talents and skills and the accumulated experience of the country. It should thus be possible to work out the appropriate scale and range of activities for which the infrastructural facilities are required.

167. Yet if cost-benefit calculations are not possible, it should be kept in mind that there is much scope for the

exercise of economy in the provision of infrastructural facilities. The squandering of public funds is all too common a phenomenon in developing countries, and scope for it is all the greater in sectors where benefits are difficult to measure, and where the illusory prestige of the public authorities is involved. Building construction is one sector in which there can be a high degree of cost reduction by departing from the intensive construction technology acquired from developed countries, based on cement, steel and concrete. Most developing countries have a traditional carpentry craft industry capable of producing furniture just as good functionally as the steel office furniture characteristic of developed countries. However, research and educational institutions in developing countries are all too often housed in modern multistorey buildings, furnished with the latest office gadgetry. Of necessity, some scientific instruments and equipment have to be imported, but it is also a common experience in developing countries to find costly equipment that was brought back by a scientific mission and that lies rusting for lack of knowledge of how to use it. Attention should be paid to avoiding such sources of waste.

ANNEX

(i) In this annex, the approach to the allocation of resources for technological development presented in the body of the chapter is set out more rigorously, necessarily in somewhat technical language.

(ii) Let Y_t represent gross product in real terms and let r be the fraction of it devoted to technology development. Y'_t depends on r in the sense that, if from the time point o the proportion r is raised to r', the series Y_1, Y_2, Y_3 ... becomes Y_1' Y_2' Y_3' ... and all $t > t_0$ become $Y'_t > Y_t$. Further, the greater the increase r'-r, the higher is the value of Y_t'. There is a trade-off between length of the waiting period and the higher levels of output Y_t' after the period of waiting. In addition, the best or "optimal" value of r is difficult to determine (see paras. 155 and 156).

(iii) Let the sectors of the economy, according to some schemes of classification, be 1, 2, ... n. It is assumed that only sectors 1, 2, ... n' would be included in the technology plan, even though all the n sectors might feature in an economic development plan. In other words, it is assumed that the sector n'+1 ... n could be deliberately left out of technology planning, dependence on technology imports being accepted as a matter of policy (see para. 157).

(iv) Even for sectors 1, 2 ... n' included in the technology plan, not all the activities in each sector would be included in the technology plan. Thus, if V_1, V_2, ... V_n' be the measures of value added in these sectors, the activities included in the technology plan could be such that they would give rise to the following quantities of value added in the same sectors: V_1' V_2' ... $V'_n{}'$, where $V_i' > V_i$ (para. 158).

(v) If R_i be the resources devoted to technological development in sector i, then the rule of thumb (see para. 158) for allocating the total resources R available for technological planning among the different sectors is to make R_i and R_j such that $R_i/R_j = V_i'/V_j'$.

(vi) Let R_{is} be the resources devoted to project s in sector i and let V_{is} be the increased value added in sector i that is expected to take place up on successful completion of project s (see paras. 159-164). Then the ratio

$$I_{is} = \frac{V_{is}}{R_{is}}$$

is to be treated as the index of the project's worth (I), if project s is one in category A, as defined in paragraph 159. If the project is in category B, the index suggested is:

$$I_{is} = \frac{1/2 is}{R_{is}}$$

(vii) As may be seen, the formula for the index for projects in category B involves a factor of 1/2, whereas no such factor occurs in the formula for projects in category A. The reason for this difference is that it is assumed, for the sake of simplicity, that the projects in category A have a probability of 1 of being completed successfully, whereas the projects in category B have a probability of 1/2 of being successfully completed. It is further assumed that the probabilities of success of projects in category B, which are such as to have "fair chances" of being successfully completed, cannot be evaluated more accurately. Accordingly, the single number 1/2 has been chosen, which may be treated as the mean value of probabilities between 0 and 1 for the different projects to reflect the distinction between different categories.

(viii) Next comes the method suggested for using the above index for the inclusion or exclusion of projects in the technology plan. The projects belonging to sector i in categories A and B may be arranged in the order of the values of their indices. In other words, the projects should be so numbered that project s=1 would have the highest value of this index, project s=2 the next highest and so on. Thus the suggestion is that the projects are so numbered that $I_{i1} > I_{i2} > I_{i3} > ... I_{in}$.

(ix) Having thus arranged the projects, the next step is to include all the projects numbered s=1, 2, ... p, so that

$$\sum_{s=1}^{p} R_{is} = R_i'$$

where R_i' is the total allocation to sector i, without counting the "seed money" projects. In this manner it would be ensured that the projects belonging to sector i would be such that the resources devoted to them would add up to the allocation for the sector as a whole; also, that no project excluded would have contributed more value added per unit of resources devoted to it than any of the projects included.

(x) The total allocation R_i'' to the "seed money" projects in sector i is the sum total of allocations to individual "seed money" projects (see paras. 161-163). Thus

$$R_i'' = \sum_{s}^{p} R''_{is}$$

where R''_{is} is the "seed money" allocation to project s belonging to sector i. As has been explained, this should represent the "critical minimum" amount called for by the project in question; any amount below this should be regarded as so inadequate as to represent a waste of the entire amount.

(xi) The total allocation R_i of resources to sector i would of course be equal to the sum of the allocations to projects in all three categories, i.e. $R_i = R_i' + R_i''$.

CHAPTER VIII

Alternative approaches to technology planning

168. Chapter VI discussed the contents of an ideally conceived technology plan. The technology plans of the few countries that have prepared such plans (see chap. V) do not conform to this ideal pattern, nor can such a pattern be regarded as a suitable basis for technology planning in all countries. Countries at different stages of technological development face different kinds of problems, and technology planning has to be adjusted accordingly.

169. From the point of view of technology planning, countries may be divided on the basis of a two-way classification into five groups. One classification is in terms of the degree of technological dependence on developed countries: some countries have already acquired some degree of technological capability, while others are still totally dependent on imports of technology, with the exception of indigenous craft technology, and therefore

have yet to make a beginning. The other classification is in terms of the size of a country. The "economic size" of a country is a significant consideration in technology development, from the point of view both of the domestic market and of the volume of resources that can be mobilized for development. How best to measure the "economic size" of a country is a familiar and difficult problem. Various indices can be used: GDP, population and *per capita* product.

170. Once the problem of measuring size is resolved, the following five categories may be used for indicative purposes:

Category 1: Large-sized, technologically semi-dependent (Argentina, Brazil, China, India);

Category 2: Medium-sized, technologically semi-dependent (Egypt, Iran, Mexico, Nigeria, Pakistan, Republic of Korea);

Category 3: Small-sized, technologically semi-dependent (Hong Kong, Singapore);

Category 4: Medium-sized, technologically dependent (Iraq, Thailand);

Category 5: Small-sized, technologically dependent.

171. Large but technologically relatively undeveloped countries are omitted, since countries that are technologically totally dependent on developed countries cannot be regarded as large in any economic sense.

172. Section 1 of the technology plan described in chapter VI (para. 141) would be different for each of these categories of countries, but some sectors would find a place in the technology plan of any country: (*a*) agriculture and allied activities (including animal husbandry, fisheries and food processing); (*b*) traditional craft industries; (*c*) the non-standard energy sector (for the development of more efficient uses of human and animal power as well as such natural sources of energy as sun and wind); (*d*) the transportation sector (for the development of more efficient means of locomotion, using less of the standard forms of energies).

173. In addition, countries in category 4 could find it possible to develop standard modern technologies in selected sectors. Countries in categories 2 and 3 would find it possible to accommodate quite a number of advanced modern technology sectors in their plans. Countries in category 5 however, would be restricted in their choices to such technologies as either did not call for a large market or could depend on an export market. Countries in category 1 would not have to submit to such restrictions. Thus India and Brazil have established industries such as steel, automobiles and machinery manufacturing, and are also capable of developing the relevant technologies.

174. Section 5 (para. 145) can be included in the technology plans only of countries that have well established institutions for economic development planning. Many developing countries have officially adopted the philosophy of economic planning, but in only a few has the philosophy been translated into systematic practice. Even if there is regular publication of plans incorporating quantitative targets for production and investment, such plans are no more than paper exercises unless backed by institutional arrangements for the realization of those targets. In such circumstances, calculations and target setting of the type envisaged in section 5 of a technology plan is hardly to be expected.

175. Section 6 (para. 146) may be expected to be included by most countries that engage in technology planning. But its composition in terms of its different parts will vary according to the technological development of the country. Thus component (*c*) (projects for the modernization of craft technologies) should be included in the technology plan of any country. On the other hand, component (*d*) (projects for the development of new technologies) may be expected to feature only in the plans of the few countries that already have a substantial infrastructure of technological development facilities, as well as technical personnel, in adequate numbers Components (*a*) and (*b*) could feature in the plans of a large number of countries in categories 1, 2, 3 and 4.

176. The other sections of the technology plan, namely, section 2 (profiles of existing technology) (para. 142), section 3 (institutional facilities for technological development) (para. 143) and section 4 (technology policy by sectors) (para. 144), could be included in the technology plans of all countries. Section 7 (manpower training programmes) (para. 147) is the first to be considered in every country, even if technological development in the production process remains very limited. Section 8 (para. 148) should also find its place in all such plans. Countries with a sophisticated arsenal of public finance instruments are better placed in this respect.

177. So far, the focus has been on the different sections of a technology plan, as described in chapter VI, applicable to different categories of countries. The next step is to look at countries at different levels of development to see what kinds of technological planning are feasible.

178. The distinctive feature of all developing countries, other than those in category 1, is that they have not yet begun to manufacture capital goods on any significant scale, or are manufacturing them only to a marginal extent. Their imports of capital goods are still derived almost entirely from developed countries, with only a trickle from developing countries in category 1. In the manufacturing sector, these imports consist mainly of specialized equipment, while in large-scale commercial agriculture, mining and construction, by the very nature of the processes involved, they consist of both multipurpose and specialized equipment.

179. One kind of technological transformation open to such countries would be gradually to stop these imports, replacing them by domestic manufacture. Such an attempt would meet with two obstacles: first, if the domestic manufacture of capital goods is designed to cater only to the existing limited demand created indirectly by consumption in the middle and higher income groups, and by the limited needs of large-scale agriculture, construction and mining, then the diseconomies of scale and specialization will exact a heavy price; secondly, some of the countries have very few—if any—known reserves of essential raw materials such as basic minerals and fuels, and would have to import them to manufacture capital goods.

180. The first stage in this process will have been completed when imports of equipment are confined only to multipurpose machinery essential for the manufacture of other capital goods. How long it will take to arrive at this stage depends on the forward linkages to consumer and

intermediate goods industries that are created. The choice of industrial sectors to be developed and, within them, of the products to be manufactured, will play a significant role in that respect. Whatever the road chosen for the completion of the first stage, the transfer and adaptation of process and product know-how will certainly be necessary for many years to come.

181. Use of multipurpose equipment for the production of standard modern capital goods requires proportionately higher numbers of skilled workers, technicians and engineers. To generate enough skilled workers, technicians and engineers by a certain date, forward planning up to 10 years is needed. This does not mean that a start cannot be made sooner on capital goods manufacture, but it implies that in many countries, at least for several years, foreign technicians and engineers will be needed. The two approaches can be co-ordinated in the sense that trainees obtain on-the-job training in production enterprises from foreign personnel.

182. Many of the countries in categories 4 and 5 are dependent on one – or at most two or three – agricultural resources, such as tea, coffee or meat, or on mineral products such as tin, copper, bauxite or iron ore. In such cases, necessarily, the latest technology has to be used and kept up to date if the product is to be competitive. Initially, and perhaps for a long time, technological dependence in these sectors will continue. But it can be progressively lessened, partly by working towards more and more processing of the product in the country of origin and partly by gradually mastering the imported technology, adapting and eventually generating much of it, as has been done, for example, by Sri Lanka in the processing of tea. The same principles apply in the mining sector, but here there is an additional problem. In proceeding from mining and ore dressing to smelting, refining and fabrication of semis, economics of scale are usually important, at least up to the stage where the metal is produced. In small countries dependent on petroleum the principles are again similar, but the technological complexities are greater, not so much in extraction and oil refining as in the setting up of a petrochemical industry.

183. In the countries in categories 4 and 5, the first steps towards technology planning are education and training of scientists, engineers and technicians with qualifications relevant to the needs of the country, and establishment, step by step, of policies and institutions that will make possible the effective transfer and adaptation of imported technology and the gradual generation of local technology. The primary concern should be with production of goods for mass consumption and the systematic development of the intermediate and capital goods industries required to make them.

184. Countries in category 1 are motivated to initiate domestic manufacture of modern as well as highly modern capital goods because of the strategic importance of such goods for consolidating economic and political independence. But the manufacture of such capital goods is subject to economies of scale. The markets that have been defined as "large"–even in the countries in category 1–are quite small for the production of sophisticated finished consumer goods, which meet the demand of the more affluent and which are produced by highly modern capital goods. The size of such demand is necessarily limited. For instance, even in India, the upper middle and higher income groups represent a population of not much more than 12 million, and in Mexico of perhaps only 2 million. These small markets have already become saturated at the given income levels, and the incomes of these groups are not rising fast enough to necessitate an accelerated growth of the capital goods sector catering to their needs. This situation has been carefully analysed and is related to the stagnation resulting from some of the current import substitution strategies of this type.

185. If past and present trends–in which the domestic market is not expanding sufficiently–continue, resulting in an inadequate increase in mass purchasing power, there will necessarily be increased pressure to produce goods for export to developed countries. A serious obstacle in this path is the resistance of the transnational corporations, whose collaboration is essential for the import of advanced modern technology, over which they exercise oligopolistic control; the situation will be further aggravated by the growing practice of various forms of protectionism by the developed countries.

186. Among the countries in category 1, those that are concerned to reduce inequalities in income distribution *pari passu* with the promotion of further growth and development have to be differentiated from those whose concern in this respect is less marked. The former group are likely to lay emphasis in their technology plans on increasing self-reliance in machinery and chemicals, together with the import–wherever necessary–of advanced technology required for those branches, industrial or agricultural, where they enjoy a comparative advantage on the world market. Among the other countries in category 1 which are relatively open to foreign investments and highly responsibe to the demand of a small urban élite, a large part of consumer goods (including consumer durables) is–and will continue to be–produced not only with foreign technology, but with the latest available foreign technology. Nevertheless, technology planning in such countries can lessen their dependence by allocating substantial resources to the energy sector (as in Brazil, India and Mexico), or to the machinery sector (e.g. the new thrust in the Indian and Mexican plans), or to advanced textile technology (e.g. Egypt).

187. The prime difference between highly modern and standard modern technologies lies in the processes used. The processes—whether chemical, engineering, assembly or transport—characterizing the former are highly science-related,[46] and have been arrived at through research-intensive methods.[47] This radical difference in processes is usually but not necessarily, accompanied by differences in products.

188. A process is never merely disembodied knowledge, but consists partly of equipment goods and partly of the knowledge essential for equipment goods to make other

[46] The term "science-related" is used in preference to "science-based" to stress the fact that there is a constant and intimate interaction between fundamental advances in science (both pure and applied) and highly modern technology.

[47] A technology is said to be "research intensive" if the values are high for the ratios (*a*) research and development personnel to total employment and (*b*) research and development expenditure to total net output.

equipment goods. To handle highly sophisticated imported processes, certain new skills are needed at four levels: scientists, engineers, technicians and laboratory assistants. To become adept in such knowledge requires a few years of formal training in institutions of higher education, followed by a few years of on-the-job experience. Category 1 developing countries intending to develop such modern technologies have to plan new types of scientific and technical education well ahead.

189. The task of assimilating and independently applying the imported knowledge in the more conventional areas such as mechanical, electrical and chemical engineering will fall to the skilled domestic personnel already employed in industry. No general statements are possible as to how long it will take to achieve true assimilation of this knowledge, but it may be less than the "imitation lags"[48] observed in a number of countries, i.e. less than 10 years.

190. An advanced modern process, like any other, does not operate in isolation, but generates a number of backward and forward linkage transformations, involving other processes and products. An analysis of technological innovations in advanced capitalist economies over the last 50 years shows that, to obtain the full benefits of introducing highly modern processes, certain conditions are necessary, although not sufficient. Thus specialized research and development departments have to be created either within or in close association with industrial manufacturing companies; these departments have to be staffed by large numbers of highly qualified research scientists and engineers specializing in a multitude of disciplines in the physical, biological and engineering sciences; and huge sums of money, above certain thresholds, have to be committed to research and development work, the effort being sustained over 10 to 20 years. In addition, there must be a broad domestic base, capability in the standard modern industrial sector and an educational and research infrastructure in the physical and engineering sciences; and the institutions that finance research and development work must have the capacity to absorb big financial losses caused by failures in innovation.

191. Even the biggest manufacturing and trading companies in developing countries in category 1, whether financed by private or public domestic capital, have not yet grown to a size where they can individually contemplate investing sums of the required order in research and development work on modern technologies. This difficulty may be overcome in some sectors through the pooling of research and development efforts. However, the governments of these countries have the resources to ensure that the necessary conditions are met for many modern processes. Indeed, massive intervention by the government should be regarded as a necessary condition for successful development in modern technological sectors. The experience of developed countries bears this out in the aircraft, electronics and nuclear power sectors.

192. For several of such modern processes, research and development costs, and subsequent investment costs for manufacture and marketing, are so high as to be beyond the means of individual governments. Often, however, there are genuine possibilities for fruitful collaboration among several countries in category 1, not only through trade among themselves but also through joint research and development efforts and, subsequently, joint investment.

[48] The "imitation lag" is the time that elapses between the original innovation and the appearance of its first "imitation".

PART THREE

General summary and outline of national action

A. The present technological situation

193. Technology consists of a combination of knowledge and equipment, the former being the decisive factor. There are three broad categories of technology: craft or traditional, which was little changed by the industrial revolution; standard modern, which was available by the middle of the present century; and advanced modern.

194. Technology is essential from the point of view of ability to produce capital goods, as also for the whole development process.

195. Developing countries face a number of constraints on their ability to make a given product, among which technology is of particular importance. To overcome these constraints by acquiring the ability to design, construct and operate a plant, obtaining or manufacturing the equipment required, obtaining finance and developing a sufficiently large domestic market where economies of scale can be achieved, presents problems of varying difficulty that are capable of being resolved within different periods of time.

196. A breakdown of the technologies required to manufacture the range of industrial products that developing countries manufacture or intend to manufacture also shows that there are problems of varying difficulty that have to be resolved within different periods.

197. A considerable degree of technological self-reliance within a few years would appear to be feasible in certain consumer goods industries (a wide range of processed foods, formulation of pharmaceutical products and manufacture of some of the active ingredients, textiles, clothing and footwear) and intermediate and capital goods industries (rolled steel, the principal building materials, paper, a considerable range of chemicals, metal products and a wide range of machinery). To satisfy basic consumption needs and to develop the industrial infrastructure, the basic instruments are the intermediate and capital goods required to produce consumer goods and the social infrastructure. A much higher degree of technological self-reliance is thus possible in developing countries within a relatively short time span, given the adoption of appropriate policies.

B. Activities and institutions at the national level for the development of domestic technology

198. To develop domestic technological capacity, the essential activities and the corresponding institutions must aim at the unpackaging of imported technology and its adaptation to local requirements, research and development for the generation of domestic technology, and provision of technical services, especially local consultancy, this last being the means of carrying out design and engineering studies and serving as the vital link between the adaptation and generation of technology on the one hand, and its application in the national production system on the other. In developing countries, governments have an essential role to play in all these activities, a fact that has come to be widely accepted. Governments also have a part to play in ensuring a sufficient and growing demand for domestically produced technology. In this context, avoidance of marked differences in income distribution is essential to ensure an expanding market for the intermediate and capital goods that embody technologies crucial for economic and social development.

199. Low priority is still being given to science and technology education and curricula are insufficiently adapted to development objectives. This situation is associated with the frequently low social prestige of technologists and technicians, corresponding to current patterns in the use of domestic resources. Much more investigation is urgently needed into problems of education and skill formation with a view to strengthening technological capabilities.

200. The allocation of sufficient resources for the development of domestic technological capacity, as well as their allocation among sectors, has also been accepted as an essential function of government in developing countries. There is no ready formula for the allocation of resources; as in the choice between savings/investment and consumption, it is a matter of time preference. As to allocation of resources among sectors, a rough and ready rule of thumb may be to subdivide the total resources available proportionally to the value added in the sectors using the technologies selected. With regard to the projects in each sector, these may be classified into those that are almost certain to yield positive results, those with a fair change of success, and those of an exploratory nature whose outcome is unpredictable. In the first two categories, a cost-benefit approach may be taken to judge the merits of the research project.

C. Progress towards technology planning in certain developing countries

201. Most developing countries have economic development plans, with a financial and, progressively, a manpower component, as well as social components such as health services. But few of them have technology plans, despite the increasing recognition in recent years of the importance of science and technology for development and the increasing efforts in a number of countries to screen technology imports.

202. Five countries, Brazil, India, Mexico, Pakistan and Venezuela, which account for nearly 40 per cent of the industrial output of developing countries and for 45 per cent of their population, have recently drawn up and published science and technology plans. Although these plans differ in scope, they cover similar ground: an analysis by the government authorities concerned of the weaknesses of existing technology policies; targets for substantially increasing the resources devoted both to research and development and to skill formation, as well as indications of priority areas and of the kinds of research and development to be undertaken; arrangements for strengthening national institutions; and the financing of the programmes. If implemented, these plans will result in a threefold to fivefold increase in the proportion of GDP devoted to research and development, with generally a target of 1 per cent. It is less easy to assess the probable effect of the changes envisaged in the institutional structures of the countries concerned. In general, it would seem that insufficient attention is still paid to the need for linking the institutional arrangements for transfer with the development of technology. The plans all aim at increasing the availability of the skills required for greater technological self-reliance, but for the most part they are drawn up, in this respect, in rather general terms.

D. Nature of technology planning and alternative approaches

203. Development plans, whether indicative or in some way intended to guide the economy more directly, and usually conceived at three levels: the economy as a whole, individual sectors, and projects. They provide for physical targets and investment allocations, including broad allocations for technological innovation and skill formation. Technology planning covers both imports and adaptation of technology and development of domestic technology, through research and development and through skill formation, and the changing balance between those technologies over time. Plans for the development of domestic technology have targets for fixed capital formation (training institutions and research laboratories) and current activities (training programmes, innovation projects).

204. Ideally, technology planning comprises the following elements:

(*a*) Identification of sectors and subsectors to be covered by the technology plan;

(*b*) A qualitative and quantitative technological profile of the sectors and subsectors included;

(*c*) A critical analysis of existing institutional facilities by sectors and subsectors for the promotion of technological development;

(*d*) Technology policy objectives by sectors and subsectors;

(*e*) Short-term quantitative and qualitative targets for development of technology by sectors and subsectors, mainly in respect of the nature of adaptation and improvement of technologies already in use;

(*f*) Longer-term projects, mainly concerned with the development of technologies not yet in use;

(*g*) Manpower training programmes corresponding to both short-term and long-term programmes;

(*h*) Policy instruments to be introduced to implement the technology plan.

205. Developing countries have different prospects, depending on their size, resource endowment and present

level of technological development; and also different economic and social objectives. There will thus be differences in sector coverage. While all countries would have to include sectors such as agriculture and allied industries, traditional crafts, non-conventional energies and transportation, countries that have already acquired some degree of technological capability and that can provide large domestic markets can use a whole range of standard modern industrial technologies, including technologies for the production of capital goods, as well as selected advanced modern technologies. Countries that cannot provide large domestic markets but have acquired some technological capability would have to confine themselves mainly to the development of such technologies—both standard modern and advanced modern—as could be used to produce goods for the export market. Countries that are as yet totally dependent on imports of modern technologies would have to concentrate their efforts on the training of scientific and technical personnel. Countries that depend heavily on the export of one or two products would have to use the latest technologies for the processing of these products, even at the cost of continued dependence on technology imports. They would for some time have to confine themselves to the relatively modest target of adaptation of imported standard modern technologies.

206. A breakdown by sector of quantitative targets for mixes of imported, imported and adapted, and indigenously developed technologies can be expected only in the technology plans of countries where production and investment planning is well established. Such quantitative targets cannot be expected to feature in the technology plans of countries that do not prepare economic development plans. The technology plans of all countries must give due importance to manpower planning. Whatever the level of technological development of a country, a most useful task is to prepare thoroughly, as a part of its technology plan, the technological profiles of the different sectors, so as to gather the basic data for the formulation of strategies for further advance.

207. The UNCTAD Advisory Service on Transfer of Technology is available, at the request of Governments, to assist countries that decide to engage in technology planning or to take initial steps to that effect.

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Technology: development aspects of the reverse transfer of technology

Study by the UNCTAD secretariat

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TABLES

Introduction

1. The issue of reverse transfer of technology has been on the international agenda for some time. A number of major resolutions have been adopted by the international community calling for concerted efforts at the national, regional and international levels to mitigate the adverse consequences of the phenomenon. Among these, mention may be made of General Assembly resolutions 32/192 of 19 December 1977 and 33/151 of 19 December 1978, on reverse transfer of technology.[1] At its second session, in December 1978, the Committee on Transfer of Technology adopted resolution 7 (II), on development aspects of the reverse transfer of technology.[2] The subject also received in-depth consideration by the Group of Governmental Experts on Reverse Transfer of Technology, meeting in Geneva from 27 February to 7 March 1978, which adopted a series of agreed conclusions and recommendations.[3] The present study by the UNCTAD secretariat is based on earlier work by UNCTAD on the subject, including recent studies, some of them undertaken in close co-operation with the Department of Economic and Social Affairs of the United Nations Secretariat.[4] It also reflects the discussions in and the results of the meeting of the Group of Governmental Experts on Reverse Transfer of Technology. In addition, it draws on the work of other international bodies such as UNITAR, ILO, WHO and UNESCO, which have been concerned with the subject, as well as on the immense amount of work done in academic institutions or in bodies outside the United Nations system.

2. This study is divided into five chapters. Chapter I analyses the main features of reverse transfer of technology. Chapter II examines the main issues for action at the national level in both developing and developed countries. Chapter III surveys the main international issues, focusing on the asymmetries in the international market for skills, and on the need to ensure that skill flows from developing to developed countries are not a mere consequence or confirmation of the weakness and poverty of the sending countries, but an exchange in which the interests of skill-exporting and skill-importing countries are promoted with appropriate recognition of mutual interest. It first looks at the question of modifying the international resource accounting framework to incorporate the imputed value of reverse transfer of technology. It then examines some of the proposals that have been advanced for a better sharing of the burdens and benefits associated with skilled migration. Chapter IV deals with the question of co-operative exchange of skills among developing countries, exploring both the conceptual basis for such co-operation and the practical steps needed for its implementation. Finally, chapter V outlines the main issues for the fifth session of the United Nations Conference on Trade and Development.

[1] See also General Assembly resolution 3362 (S-VII) of 16 September 1975, sect. III, para. 10, and Conference resolutions 39 (III) of 16 May 1972, para. 20; and 87 (IV) of 30 May 1976, para. 18.

[2] See the report of the Committee on Transfer of Technology on its second session (*Official Records of the Trade and Development Board, Tenth Special Session, Supplement No. 4* (TD/B/736)), annex I.

[3] See "Report of the Group of Governmental Experts on Reverse Transfer of Technology" (TD/B/C.6/28), para. 70.

[4] For a detailed list of studies prepared or commissioned by the UNCTAD secretariat, *ibid.*, annex III.

CHAPTER I

Main features and recent trends

3. To examine the development aspects of skilled migration, it seems necessary to define the specific categories of personnel included in (and excluded from) the concept of "reverse transfer of technology". The most appropriate definition of those skilled migrants from developing to developed countries whose migration constitutes the reverse transfer of technology is derived from the classification adopted by the United States Immigration and Naturalization Service—"PTK"—which covers "professional, technical and kindred workers". Other terms used interchangeably include "high-level", "highly trained" or "skilled" manpower. The PTK classification is broadly similar to that used in other developed countries, although in terms of statistical comparability it may present some difficulties, which have been discussed at length in an earlier study by the UNCTAD secretariat.[5]

A. Magnitude of skill flows from developing to developed countries

4. In attempting to bring together the most salient points relating to the issue of reverse transfer of technology, it is important to reiterate the recent trends and main features of skilled migration from developing to developed countries. As in previous UNCTAD studies, an attempt will be made here to deal mainly with the flows into the three major developed countries of immigration: United States of America, Canada and United Kingdom. However since there is evidence to suggest that some 75 per cent of skilled migrants from developing countries immigrate to these three countries,[6] it should be possible to use data on flows to these countries to reach general conclusions concerning the nature of migration from developing to developed countries as a whole. In addition, some broad estimates are presented for skill flows into Western Europe.

5. The trends in skill flows noted in the aforementioned study by the UNCTAD secretariat have been largely maintained. The number of skilled migrants entering the United States and Canada, for example, are still considerable, although they are no longer increasing at previous rates. The post-war immigration policies cited in the study, which were said to discriminate in favour of professionals over other immigrants, appear to be largely intact.[7] However, there is an increasing tendency in developed countries to require that immigration should be "planned"

[5] See "The reverse transfer of technology: its dimensions, economic effects and policy implications", study prepared with the assistance of P. Balacs (TD/B/C.6/7), October 1975, para. 25.

[6] *Ibid.*, para. 23.

[7] *Ibid.*, para. 26.

in accordance with domestic labour market conditions.[8] Thus, instead of a consistent increase in inflows of all professional categories, there now appear to be fluctuations within each category from year to year as immigration officials respond to the particular needs of domestic labour markets.

6. Earlier estimates by the UNCTAD secretariat indicated that between the early 1960s and 1972 skilled migration from developing countries (engineers, scientists, physicians and surgeons, and technical and kindred workers) to the three major developed countries of immigration—United States of America, Canada and United Kingdom—amounted to little over 230,000 persons.[9] To this can now be added a flow of about 29,000 to the United States between 1973 and 1975,[10] and 25,000 to Canada between 1973 and 1976.[11] It has not been possible to obtain up-to-date figures for the United Kingdom, but even assuming a declining trend in the rate of immigration (say an average rate of 5,000 per year), this would probably give a total of about 20,000 for the four years 1973-1976. Adding these figures to the total of 230,000 gives a combined total for the three major developed countries of immigration of over 300,000 for the period 1960 to 1975/76.

7. Even this total may be an underestimate if it is considered that the United States figures include only a limited category of occupational groups and not the whole spectrum of professional, technical and kindred manpower, as in the case of the other two developed countries.

8. Furthermore, the estimates take no account of skilled migration to other developed countries; this exclusion would appear to be particularly serious in the case of Western Europe, which is generally considered an important recipient of skilled migrants from developing countries, particularly from Yugoslavia, Algeria, Tunisia, Morocco and certain other developing regions. In a recent study by the UNCTAD secretariat, however, it was estimated that nearly 115,000 skilled migrants from developing countries were employed in Western Europe in the early 1970.[12] This figure, added to the total of 300,000 for the United States of America, Canada and United Kingdom, gives a rough global total for skill flows from developing to developed countries of about 420,000 (or possibly more if other countries are included, e.g. Australia), in the early or mid-1970s.

B. Main characteristics of skilled migration flows

9. It may also be of interest to note that, in addition to the large volume of over-all flows, there has at the same time been a gradual shift in their composition, as immigration authorities in developed countries have attempted to gear their policies to the domestic labour markets by applying more stringent selectivity criteria to international labour flows. This has been reflected, in the first place, in a shift from unskilled to skilled labour and, secondly, in the increasing share of developing countries in the total flow of skilled manpower to developed countries—a trend that may partly account for the increasing role of developing countries as "the principal exporters of skills to developed countries".[13]

10. This trend has perhaps manifested itself most strikingly in the United States of America, where skilled migrants from developing countries, who accounted for only 37 per cent of total skilled migrants in 1961-1975, now account for 70 and 80 per cent.[14] In Canada and the United Kingdom, the shares of developing countries in total skill flows have averaged 26 per cent and 22 per cent respectively.

1. *Composition by occupation*

11. A detailed examination of the composition of skilled migration by occupation (see table 1) may perhaps help to place in even sharper contrast the critical nature of skill outflows from developing regions. For example, physicians and surgeons have been the most significant category of skilled immigrants from developing countries to the United States of America, Canada and the United Kingdom, constituting 60 per cent of the over-all skilled immigration to these three countries (72 per cent in the United States, 49 per cent in the United Kingdom and 37 per cent in Canada). Engineers and scientists have come next, accounting from 43 per cent of the total number of skilled immigrants to developed countries (58 per cent in the united States, 32 per cent in Canada and 17 per cent in the United Kingdom).

12. In terms of absolute flows, nearly 61,000 physicians and surgeons, over 100,000 engineers and scientists and another 123,000 technical and kindred manpower migrated from developing regions to those three developed countries between 1961 and 1975/76.

13. The impact of these flows on developing and developed countries can perhaps be best appreciated if skill flows are seen in relation to the domestic supply of skilled manpower in those countries. Some sample estimates for a few skill categories (mainly physicians and surgeons) and for some developing and developed countries are summarized in table 2.

14. For developing countries, the picture that emerges may be described as follows: in the Philippines, in 1975-1976, the average annual outflow of doctors accounted for 21 per cent of the average annual domestic increase in the profession in those years, and of engineers and scientists for about 11 per cent; in Pakistan, in the 1970s, 50-70 per cent of newly qualified doctors were apparently emigrating each year; for India, it was estimated that engineers and doctors working abroad represented about 25 per cent and 30 per cent respectively of the numbers graduating in the years concerned; in Sri Lanka, the emigration of accountants in the period 1971-1974,

[8] See, for instance, Canada, Department of Manpower and Immigration, *Immigration Policy Perspectives* (Ottawa, 1974), p. 23.

[9] See TD/B/C.6/7, table 1.

[10] Based on unpublished data supplied by the National Science Foundation of the United States of America.

[11] See Canada, Department of Manpower and Immigration, *Immigration Statistics* (Ottawa).

[12] "Development aspects of the reverse transfer of technology" (TD/B/C.6/41), November 1978, para. 9.

[13] TD/B/C.6/7, para. 29.

[14] Based on unpublished data supplied by the National Science Foundation of the United States of America.

expressed as a percentage of the supply in 1971, represented the largest outflow (35 per cent), followed by doctors (20 per cent) and engineers (18 per cent). In the Syrian Arab Republic and Iran, in 1971, the emigration of doctors represented roughly 40 per cent and 33 per cent respectively of the total number of doctors in those countries; in Haiti (not listed in the table), the number of emigrants actually exceeded the total numbers in that country.[15]

15. The benefits to the receiving developed countries, on the other hand, are illustrated by the estimates in table 2, which show that the annual flow of physicians and surgeons from developing countries came to as much as 51 per cent of net additions to the total number of indigenous physicians and surgeons in the United States of America in 1971-1972, the corresponding ratio for the United Kingdom being 40 per cent. The rate for engineers from developing countries was slightly lower, accounting for 26 per cent of the incremental supply of engineers in the United States in the early 1970s.

16. It may also be worth bearing in mind that doctors, engineers and scientists, when they emigrate from developing to developed countries, generally do so during the most productive periods of their professional lives. For example: "Approximately 50 per cent of all FMGs [doctors] coming to the United States since the 1960s have been less than 40 years old. In 1970, nearly one half (49 per cent) of the scientists and engineers immigrating to the United States were under 30; another 46 per cent were between 30 to 44."[16] Such factors, therefore, tend to accentuate the burdens of migration flows for the losing countries and the benefits for the receiving countries.

[15] See WHO, "Progress report on the multinational study of the international migration of physicians and nurses" (EB 57/21 Add.1), 20 November 1975, p. 3.

2. *Regional characteristics*

17. As far as sources are concerned, Asia has been the principal catchment area, accounting for about 50 per cent of total skill flows to the three developed countries concerned.[17] The remaining shares have been spread over

[16] Foreign Affairs Division, Congressional Research Service, Library of Congress, *Brain Drain: A Study of the Persistent Issue of International Scientific Mobility*, study prepared for the Subcommittee on National Security Policy and Scientific Developments of the Committee on Foreign Affairs, United States House of Representatives (Washington D.C., U.S. Government Printing Office, 1974), p. 141.

[17] See TD/B/C.6/7, table 2.

TABLE 1

Share of developing countries in total skilled immigration to the United States of America, Canada and the United Kingdom, 1971-1975/76

Country of destination and occupation	*Skilled migrants[a] from* Developing countries (1)	All countries (2)	(1) as percentage of (2) (3)
United States of America[b]	*118 816*	*190 813*	*62*
Physicians and surgeons	40 876	56 447	72
Engineers and scientists	77 279	133 478	58
All others	661	888	74
Canada[c]	*81 613*	*297 211*	*27*
Physicians, surgeons and dentists	4 850	13 023	37
Engineers and scientists	13 601	42 711	32
All others	63 162	241 477	26
United Kingdom[d]	*84 040*	*380 751*	*22*
Physicians, surgeons and dentists	15 655	32 065	49
Engineers and scientists	9 225	54 705	17
All others	59 160	293 981	20
Total	*284 469*	*868 775*	*33*
Physicians, surgeons and dentists	61 381	101 535	60
Engineers and scientists	100 105	230 894	43
All others	122 983	536 346	23

Sources: United Kingdom: "The reverse transfer of technology: its dimensions, economic effects and policy implications" (TD/B/C.6/7), table 3; United States of America: unpublished data supplied by the National Science Foundation; Canada: Department of Manpower and Immigration, *Immigration Statistics* (Ottawa).

[a] The concept of skilled migrant used is wider for Canada and the United Kingdom than for the United States (see TD/B/C.6/7, annex A, table A-2, foot-notes *a* to *f*).

[b] For years 1961-1975.

[c] For years 1963-1976.

[d] For years 1964-1972.

TABLE 2

Skill flows in relation to domestic supply of skilled manpower: sample estimates for selected developing and developed countries

Country	*Skilled migrants as percentage of domestic supply or annual output*		
	Physicians and surgeons	*Engineers, scientists*	*Others*
A. *Developing countries of emigration*			
Philippines[a] (1975-1976)	21	11	10
Pakistan[b] (1970s)	50-70	..	..
Syrian Arab Republic[c] (1971)	40	..	..
Iran[c] (1971)	30	..	..
India[b] (1966-1967)	30	25	4
Sri Lanka[d] (1971-1974)	20	18	35
B. *Developed countries of immigration*			
United States of America[e] (1971-1972)	51	26	11
United Kingdom[e] (1966)	40	..	5

Sources: For the Syrian Arab Republic and Iran: WHO, "Progress report on the multinational study of the international migration of physicians and nurses" (EB/57 21 Add.1), 20 November 1975; reports issued in December 1977 in the series "Case studies in reverse transfer of technology (brain drain): a survey of problems and policies"; Philippines: TD/B/C.6/AC.4/5, table 1; Pakistan: TD/B/C.6/AC.4/4, table 3; India: TD/B/C.6/AC.4/6, para. 8. For the United States of America and the United Kingdom: "The reverse transfer of technology: its dimensions, economic effects and policy implications" (TD/B/C.6/7), table 4.

[a] Average annual flow of skilled emigrants as percentage of average annual increase in domestic supply.

[b] Outflow as percentage of annual output.

[c] Outflow as percentage of total numbers in that year.

[d] Outflow for the years 1971-1974 as percentage of supply in 1971.

[e] Inflow of skilled migrants from developing countries as percentage of annual increments in indigenous supply of manpower in those skills.

the other regions. The absolute numbers and relative shares of these other regions appear to be substantially smaller than those of Asia. However, for some countries, the loss of a handful of skilled personnel may represent a fairly substantial proportion of their domestic supply of available skills or may be concentrated in certain key skill groups. In such cases, despite the small size of the flow, the economic impact could be critical.

CHAPTER II

Survey of main issues: scope for national action

A. Background

18. The causes of migration flows—both internal and international—have been analysed in numerous studies carried out both by international organizations and by academic institutions.[18] These studies, particularly the study prepared by Glaser for UNITAR,[19] suggest that the strongest influence on the individual's migration plans has been considerations of income and living standards. To some extent, this has combined with other factors, such as working conditions and social environment, in determining migration decisions. Krugman and Bhagwati arrive at similar conclusions.

19. In addition to factors affecting the individual's decision to migrate, a number of other factors have affected the over-all magnitude, composition and direction of migration flows. Among these, the internationalization of skilled manpower, the comparative advantage of certain developing countries in producing and exporting skills and the immigration and emigration policies of developed and developing countries have been found to play an important part. The studies further indicate a strong relationship of interdependence between the so-called "push" and "pull" factors operating in the developing and developed countries respectively, a phenomenon symptomatic of the over-all situation of unequal development in the international economy.

20. These wider dimensions of the causes of skilled migration thus clearly suggest that approaches to the phenomenon of reverse transfer of technology have to be conceived within a broader framework that takes into account the different objectives and varying concerns of different developing countries and the need for action at different levels. The first task must therefore be to identify

[18] For a list of studies on the causes of migration of skilled personnel, see TD/B/C.6/7, chap. I.

[19] See W.A. Glaser and G. Habers, *The Brain Drain: Emigration and Return*, UNITAR research report No. 22 (Oxford, Pergamon Press, 1978).

analytically the different proposals made and their rationale. Broadly, they fall into three main groups:

(*a*) Proposals requiring action by developing countries;

(*b*) Proposals requiring action by developed countries;

(*c*) Proposals requiring co-operative action by developed and developing countries.

21. It may also be noted that in the agreed conclusions and recommendations adopted by the Group of Governmental Experts on Reverse Transfer of Technology, the "need for concerted efforts at the national, regional and international levels..."[20] was clearly recognized.

22. An attempt will be made in section B below to review some of the proposals relating to points (*a*) and (*b*), and in section C the proposals relating to point (*c*).

B. Action by developing countries

23. According to the literature on the subject, most of the measures that developing countries should take would be aimed at reducing the outflow of skills. These measures can be separated into three main categories: (*a*) "incentive" policies to encourage professionals to stay in their home country or to return from abroad; (*b*) "regulatory" policies to discourage professionals from leaving their country; (*c*) "delinking" policies intended to "indigenize" the educational system in order to absorb the skilled manpower domestically.

1. *Incentive policies*

24. The main aim of such policies would be to provide a set of material and other incentives that would make emigration less attractive. The advocates of such policies typically base their prescription for enhanced material incentives on the need to raise salary levels of high-level professionals in developing countries. But while a number of institutional features of professional life in developing countries could be improved, the basic difficulty with this type of proposal lies in the enormous salary differentials that exist between developing and developed countries and the impossibility of narrowing this gap sufficiently to have any measurable impact on emigration flows. Furthermore, any attempt to raise professional salaries yet further towards international levels could distort domestic wage structures, misallocate resources and create various kinds of imbalances in a developing economy. Thus, as noted by Bhagwati, "even if these policies were to be somehow implemented on a significant scale, and were then to reduce the outflow of professional manpower, they would have to be carefully weighed for their other deleterious effects on the developing countries adopting these policies".[21] On the other hand, incentives relating to the quality of working conditions may be somewhat easier to implement and may have beneficial effects. Several other measures could also help to improve the institutional arrangements for mobilizing skills of expatriate professionals: for example, the short-term use of professional emigrants on their return visits to their home country, either through temporary research appointments at domestic institutions or through the incorporation of their talents in particular development programmes or projects.

2. *Regulatory policies*

25. Developing country regulations on emigration can be viewed as the policy counterparts to the immigration restrictions (quotas, selective entry conditions, etc.) imposed by developed countries; the latter, it may be noted, already restrict over-all inflows to what they consider to be desired levels.

26. Restrictions by developing countries (which have been applied on certain occasions by certain countries) can take various forms: requirement that newly graduated professionals put in minimum periods of service in their own country (as with medical graduates in many countries); quotas on issue of passports; making migration more difficult in other ways (for example, the ban in India on holding the examination of the Education Council for Foreign Medical Graduates of the American Medical Association). Other attempts have included "bonding", in terms either of required service at home after study abroad or of financial compensation from non-returnees.

27. Typically, however, these types of restrictions may be difficult to implement and are likely to be "surmountable inequitably by the powerful or the ingenious, and to be resented at large by the very professionals whom it is sought to hold back, with possibly adverse effects on their efficiency and commitment to their societies".[22] Such restrictions have therefore been invoked only infrequently and are occasionally cancelled in response to effective protests by professional groups.

28. Mention may also be made here of the argument occasionally advanced that several developing countries have over-expanded their educational facilities and that their skilled emigration may be a direct result of such over-expansion, and that, if the scale of educational facilities were reduced in the country experiencing emigration, it would tend, *ceteris paribus*, to lower emigration to higher-wage developed countries, on the one hand by reducing the numbers trained and, on the other hand, by raising the domestic returns on education.

29. The desirability of such a policy, however, would seem to depend on the precise conditions prevailing in the labour market for these professionals and the social objectives of the developing countries concerned. For instance, if the effect of restriction on total output of professionals falls mainly on the net domestic supply (that is, domestic supply minus emigration) rather than on emigration, this could well be considered a serious adverse effect of the policy, in that it might actually create skill shortages in developing economies. In other words, "the desirability of restricting educational facilities for the production of the emigrating class of professionals, even when there is current 'unemployment' or 'surplus', is by no means to be taken for granted".[23]

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[20] TD/B/C.6/28, para. 70, subpara.(1) (*e*).

[21] "The reverse transfer of technology (brain drain): international resource-flow accounting, compensation, taxation and related policy measures", study prepared by J. N. Bhagwati at the request of the UNCTAD secretariat (TD/B/C.6/AC.4/2), December 1977, para. 72.

[22] *Ibid.*, para. 70.

[23] *Ibid.*, para. 73.

30. For these reasons, many developing countries have found it difficult (or rather less preferable) to adopt restrictive measures that would act as a direct curb on outflows; instead, a policy package that relies largely on incentive-type measures has been emphasized in the majority of cases, together with relatively free movement in and out of the country.

3. *"Delinking" policies*

31. The third policy element that has been advocated to varying degrees is the "indigenization" of the professional training system, by adapting curricula more closely to the country's development needs. This type of measure could form part of the over-all policy of reducing the dependence of developing countries upon developed countries. There would seem to be considerable scope for examining specific sectors in which the indigenization of the professional training system could be extended and the proper balance that might be struck in the production of high-level and middle-level professionals.

C. Action by developed countries

32. Traditionally, the measure most commonly used in developed countries has been to regulate the migration flow and its composition through the application of immigration quotas on a selective basis. However, since migration flows have come to constitute an integral part of international economic relations, with important economic and social effects on both developing and developed countries, the continued validity of a purely "unilateral" approach to fixing immigration quotas becomes questionable, particularly as it touches upon the rights of individuals to free mobility and the effect of unilateral variations of quotas on developing country economies. Accordingly, the recommendation for the introduction of a régime of bilateral or multilateral agreements that takes into account the interest of both the sending and the receiving countries would seem to require consideration.[24]

33. Several other useful suggestions have been made on action by developed countries that could prove valuable. These countries could, for example:

(*a*) Reorientate their aid or technical assistance programmes so as to strengthen educational institutions in developing countries and encourage the absorption of trained personnel within those countries;

(*b*) In that connexion, set up and support funds and programmes aimed at promoting the undertaking of research and training activities in developing country institutions, and encourage greater use of skilled professionals and consultants from developing countries in programmes or projects funded by developed countries;

(*c*) Adopt a number of other measures to ensure greater participation by developing country migrants in the development efforts of their countries; these could include, *inter alia,* removal of obstacles to remittances and transfer of income to their country of origin, including the exploring of possibilities for allowing developing country migrants to make voluntary tax-deductible contributions to chartered developing country organizations or to earmark, again on a voluntary basis, a certain percentage of their income tax payments in developed countries for development purposes;

(*d*) Finally, in accordance with the agreed conclusions and recommendations adopted by the Group of Governmental Experts on Reverse Transfer of Technology, consider rendering assistance in the collection and dissemination of "statistical and tax information" on skilled migrants, within national constraints, "on a bilateral basis, and explore ways of systematizing the availability of such information".[25]

34. In addition to all these suggestions, a number of specific proposals for action by developed countries are contained in the recommendations submitted by the Group of 77 to the Group of Governmental Experts.[26]

CHAPTER III

Survey of main issues: scope for international action

35. The phenomenon of reverse transfer of technology—or "brain drain"—nevertheless transcends purely national frontiers and there would appear to be considerable scope for "international co-operation which could lay the foundations for constructive developments in this area".[27] It may be noted that as long as barriers to the movement of goods and capital across national borders persist, there will be both a demand for and a supply of skilled manpower at the international level. The establishment of a new international economic order thus involves the task of ensuring that skilled migration from developing to developed countries is not a mere consequence or confirmation of the weakness and poverty of the sending countries but an exchange in which the interests of skill-exporting and skill-importing countries are promoted with an appropriate recognition of mutual interest. Such an approach, which is premised on the need to introduce order and equitable relationships in international skill flows, will require that national action be supplemented by action at the international level.

36. The present chapter discusses a number of points that emerged from the meeting of the Group of Governmental Experts on Reverse Transfer of Technology and from various studies on the subject undertaken by both UNCTAD[28] and ILO.[29] It is stressed that the intention is

[24] See, for instance, the conclusions of the World Conference on Employment (1976), set out in the report of the Secretary-General, "The 'brain-drain' problem: outflow of trained personnel from developing to developed countries" (E/1978/92), June 1978, paras. 114-117.

[25] TD/B/C.6/28, para. 70, subpara. (1) (*i*).

[26] *Ibid.*, annex I.

[27] *Ibid.*, para. 5.

[28] See for instance, "The reverse transfer of technology (brain drain)..." (TD/B/C.6/AC.4/2); and "Legal and administrative aspects of compensation, taxation and related policy measures: suggestions for an optimal policy mix", study by R. Pomp and O. Oldman (TD/B/C.6/AC.4/7), December 1977.

[29] See ILO, "Compensating countries of origin for the outmigration of their people", by W. R. Böhning, Working Paper WEP 2-26/WP 18 E, December 1977.

not to propose policies *per se,* but rather to provide a preliminary framework within which such policies might be considered. Clearly, a number of issues raised in this chapter are only tentative and would require more detailed consideration at the expert level. Section A looks at the question of skilled migration in the context of international resource flow accounting; section B examines some of the proposals (including the idea of international compensation) that have been advanced for ensuring that the burdens and benefits associated with skilled migration are appropriately distributed between skill-exporting developing countries and skill-importing developed countries.

A. Modification of the international resource accounting framework to incorporate the imputed value of reverse transfer of technology

37. It has been the main emphasis of UNCTAD studies that the "brain drain" entails not only the migration of human beings but also a transfer of productive resources from developing to developed countries—a reverse transfer of technology. A study prepared for the United States House of Representatives Committee on Foreign Affairs similarly equated the "brain drain" phenomenon with what it called a form of "reverse foreign aid".[30]

38. This transfer of resources is not only unrequited but is also a phenomenon that so far has been totally excluded from formal analyses or discussions of international economic relations. This exclusion would seem to be all the more serious in view of the large order of magnitude involved. Thus preliminary estimates made by the UNCTAD secretariat indicate that the imputed value of skilled migration (to be distinguished from measures of gains or losses) from developing countries as a group to three developed countries (United States of America, Canada and United Kingdom) amounted to as much as $46 billion in the period 1961-1972, or about $3.8 billion per year.[31] This amount was almost as large as ODA flows between these countries in the same period: a phenomenon that has aptly been characterized as representing a "countervailing force to foreign assistance".[32] These figures may be biased to some extent in one direction or another, but their over-all size is clearly sufficient to merit serious attention.

39. It would therefore be worth examining whether skilled migration should not be capitalized and included in the over-all balance sheet of international resource flows, with the concept of "resource" appropriately broadened to include the imputed capital value of skilled migration. One possible approach, suggested by Bhagwati, might be to distinguish between three distinct elements of international accounts: "the official flows, the nominal private flows and the imputed capital flows implicit in (and representing the capitalized equivalent of) the flows of skilled manpower".[33] The advantage of such a comprehensive balance sheet of "resource flows" would be that it would bring into better perspective the over-all resource flow situation, and particularly assist in giving a more realistic picture of net resource transfers taking place between developed and developing countries.

40. The idea of imputing capital value figures to skilled manpower (as implied by the concept of human capital) is of course not new. By now fairly standard techniques have been developed for valuing human capital. Fundamentally, two approaches may be adopted: (*a*) that of "historic cost" (HC), under which both the direct and indirect educational costs embodied in the skilled migrant are added up to their present worth; (*b*) that of the "present discounted value" (PDV), under which an attempt is made to estimate the present worth of the migrant's marginal product (or an equivalent concept) over his expected working life in the country of immigration. Both HC and PDV may in turn be imputed under two sets of relevant prices: those prevailing in developed (destination) countries and those prevailing in developing (source) countries.

41. It may be noted that the problems of using different source and destination valuations are not unique to the imputation of capital valuation figures to skilled migration. Similar issues arise in evaluating aid flows so as to arrive at a more balanced picture of relative distribution of aid burdens among donor countries and of aid benefits among recipient countries. However, if the objective of the exercise, as it is assumed, is to provide a more balanced picture of the flows of productive resources between developed and developing countries, it would be appropriate to choose a valuation procedure that is commensurate conceptually with the practice now also accepted by the Development Assistance Committee of OECD, of converting resource flows into grant equivalent figures.

42. The imputation of capital value figures to skill flows for inclusion in international resource flow accounting "can be undertaken by reaching an agreement on a set of conventions, procedures and concepts" which, according to Bhagwati, may be "no more... difficult than those that statisticians and economists continually deal with in arriving at, for example, national income accounts on a standardized basis".[34] The Group of Governmental Experts on Reverse Transfer of Technology, which considered the subject, also noted that, "in view of the inadequacy of statistical data and differences in views, further work by the United Nations system, in a co-ordinated manner, on international resource flow accounting at an expert level, should be directed towards clarifying the methodological aspects of the concepts and procedures to be developed for its practical application".[35] The Group therefore recommended that "the Committee on Transfer of Technology, at its second session, consider appropriate arrangements, including the necessity of convening a group of experts, in the light of the co-ordination decisions of the United Nations system, on the examination of the feasibility of measuring human resource flows."[36]

[30] Foreign Affairs Division, Congressional Research Service, Library of Congress, *Brain Drain...* (*op. cit.*), p. 249.

[31] These figures are based on UNCTAD secretariat estimates presented in TD/B/C.6/7. However, they exclude any upward corrections for externalities.

[32] See foot-note 30 above.

[33] TD/B/C.6/AC.4/2, para. 26.

[34] *Ibid.*, para. 4, subpara. (i), (*a*).

[35] TD/B/C.6/28, para. 70, subpara. (l), (*m*).

[36] *Ibid.*, para. 70, subpara. (4).

B. Possible areas for international co-operation

1. *Contributions by host developed countries*

43. The main motivating force behind recent pronouncements in favour of international compensation seems to have been the losses incurred by the countries of emigration. Beyond this concept of losses, however, there is the more general concept of gains by developed countries, or more precisely the transfer of resources implicit in skill flows. It is here that the question arises of sharing in gains or benefits, or obtaining some equivalent for resources transferred.

44. Several alternative possibilities for facilitating the sharing of gains or for obtaining some equivalent for the resources transferred in the form of human capital have been examined in recent years.

45. One possibility that has received much attention concerns the levying of a "direct assessment" on host developed countries, the proceeds of which could be channelled, for development purposes, either through a special fund or direct to individual developing countries. Such an assessment could be designed to take into account a number of variables. For example, it could be related to the total number of skilled personnel who immigrated to the developed country, the amount of their income, the amount of tax they paid in the developed country, the relative scarcity of their skills in the developing country of origin, the amount of education they received at the developing country's expense, or any other combination of factors that would generally reflect the costs and problems of specific developing countries as well as the enrichment of the developed countries.[37]

46. Any assessment based on an *ad hoc* formula, however, may present somewhat greater difficulties in respect of allocating gains than a sharing of an additional budgetary receipt accruing to the host country as a result of immigration. Thus by bilateral or multilateral tax treaties, individual developed countries could agree, for example, to share tax revenues that they earn from developing country nationals on the basis of some formula. It may be noted that a number of developing country governments already grant significant tax holidays to developed country personnel assigned to these countries either under technical assistance programmes or in connexion with subsidiaries of transnational corporations. These tax holidays clearly represent revenue forgone by the developing countries. Thus in some ways developed country sharing of tax revenues may be regarded as a reciprocal response to developing country governments' treatment of developed country nationals. Moreover, there is legal precedent for such tax sharing among the developed countries.[38]

47. In terms of the revenue-raising potential of tax sharing arrangements, Bhagwati estimates that if about one third, or little more, of the taxes raised by developed countries from skilled migrants from developing countries were to be shared with the developing countries, the amount involved could be about $500 million annually; a sharing of one fourth or one fifth of the tax receipts could legitimately raise $250-300 million annually.[39]

48. Finally, two other related proposals have recently been made concerning contributions of a voluntary nature; these may be worth considering as supplementary to the ideas developed here.

49. First, it may be suggested that the United States practice of tax exemption for contributions to approved charities be extended to permit the generous and speedy inclusion of many developing country charities as eligible for such benefits, and that this practice then be adopted by other developed countries as well.[40]

50. Secondly, just as United States taxpayers are allowed to earmark part of their taxes to finance presidential elections, it might be suggested that developing country immigrants in developed countries be allowed to earmark up to a certain percentage of their taxes for donation to a designated agency for development spending, or to earmark their contributions for expenditure on certain projects or in certain countries, or both. Precedents for the earmarking of contributions also exist within the United Nations system, in the operations of UNICEF.[41]

51. Revenue raised through these various mechanisms could be channelled for development purposes through the establishment of especially created institutions or funds. One or more such funds (or facilities) might be created in accordance with international practice as organizations with defined powers to receive and spend funds. They might also be created under particular regional organizations. The developed countries might create or charter such institutions (current examples are the United States and United Kingdom committees for UNICEF, through which voluntary contributions in those countries are funnelled to UNICEF). Finally, the developing countries might also decide to charter funds to attract resources for special projects.

2. *A modest supplementary tax on incomes of skilled migrants from developing countries working in developed countries, with relief from double taxation*

52. A second type of proposal, which was first advanced by Bhagwati and has since been subjected to detailed legal and administrative analysis, is for the levying of a modest supplementary tax on skilled migrants from developing countries (typically in the higher income brackets), under a global tax system (on the United States model), for development spending in developing countries. This proposal was also considered by the Group of Governmental Experts on Reverse Transfer of Technology and, taking account of the comments made thereon, Bhagwati revised his ideas in a recent paper.[42]

53. This is of course not an innovation in taxation, since it is accepted, under international custom, that

[37] See TD/B/C.6/AC.4/7, para. 115.

[38] For an example, see ILO Working Paper WEP 2-26/WP 18E, p. 20.

[39] See J. N. Bhagwati, "The brain drain: compensation and taxation", paper presented to the Conference on Economic and Demographic Change (Issues for the 1980s), International Union for the Scientific Study of Population, Helsinki, 28 August-1 September 1978 (mimeographed).

[40] See TD/B/C.6/AC.4/7, para. 33.

[41] *Ibid.*, para. 41.

[42] See foot-note 39 above.

countries should assert tax jurisdiction over nationals abroad on grounds of equity. That is in fact what is done under the existing "global tax" system, under which nationals abroad are taxed, as against the "schedular tax" system, under which they are taxed on the basis of residence rather than nationality. The rationale for a "global" approach has of course been strengthened in recent years with the increase in the international mobility of labour, particularly in the higher skill groups. Countries such as the United States, Mexico and the Philippines apply the global tax system to advantage. To some extent most income tax systems are hybrids, employing some combination of the global and schedular concepts. However, as pointed out by Pomp and Oldman, "a global system is probably used more often by the developed countries, a schedular system more often by the developing countries".[43] Thus the developing countries which for a number of reasons have failed to follow it so far may be said to be forgoing their right to revenue that they could legitimately raise by this means. It may be important to note that the levying of a supplementary tax on nationals abroad (under a global approach) need not constitute an excessive burden when combined, as is usually the case in tax treaties among developed countries, with tax credits offered by host countries. The Philippines experience suggests that a nominal tax rate (of only 1-3 per cent) on incomes of nationals working abroad can result in reasonable revenue transfers.[44] Furthermore, it indicates that such a tax can be levied under existing international law (including conventions on human rights). However, it would work better if, under bilateral or multilateral tax treaties, the developed countries could agree to offer minimal co-operation. A number of precedents already exist where developed countries have promised such co-operation in pursuance of a formal commitment in a tax treaty.[45]

54. The full dimensions of the tax rates, revenues and distribution of such revenues among different developing countries will depend, of course, on the tax structure that eventually emerges. The Philippines experience, with its limited coverage, extremely small tax rate and total revenue collection of roughly 23 million pesos (or approximately $3.2 million) during the four-year period 1973-1976,[46] suggests that this is an important revenue base that can be employed by other developing countries for raising resources in foreign exchange.

3. *Possible extension of the IMF compensatory financing facility*

55. A third proposal would seem to be rather different from the first two in that its aim would be to deal exclusively with the "adjustment problems" associated with fluctuations in migrants' remittances. These have come to constitute a significant item in the balance of payments of several developing countries, and sharp decreases in remittances faced by labour-exporting countries during recessionary periods in developed countries could give rise to serious adjustment problems. Remittances to Turkey, for instance, dropped by over $400 million between 1974 and 1976; and it would seem that the more dependent or poorer the country, the more severe the problems of adjustment are likely to be.

56. One way to deal with this could be to extend the IMF compensatory financing facility to cover fluctuations in earnings from remittances in addition to those from merchandise exports. A proposal along these lines was in fact put forward in the Manila Declaration.[47] A further examination of ways of implementing this proposal may be warranted.

4. *Some conclusions*

57. The proposals included in this chapter, which aim at correcting some of the asymmetries in the international market for skills, are not novel, nor do they involve any change in existing international practices; rather, they may be regarded as a step towards broadening the application of existing international rules to take into account the concerns of developing countries as suppliers of skilled manpower. A beginning may be made by undertaking an in-depth expert examination of these proposals to determine their feasibility and manner of implementation.

CHAPTER IV

Framework of approach to co-operative skill exchange among developing countries

58. The previous chapters have concentrated on the more familiar phenomenon of skill flows from developing to developed countries. In this chapter the focus will be on skill flows among developing countries themselves, which raise new issues and open up new possibilities for co-operation among developing countries.

59. The importance of such co-operation has been underscored in resolutions adopted in various international forums, notably in the Action Programme for Economic Co-operation adopted at the Fifth Conference of Heads of State or Government of Non-Aligned Countries (Colombo, 16-19 August 1976),[48] and in General Assembly resolution 32/192 of 19 December 1977 (paragraphs 3 and 4). Furthermore, the significance of and rationale for evolving a collective approach to the subject were examined in some depth by the UNCTAD secretariat in a study that it submitted to the Group of Governmental Experts on Reverse Transfer of Technology, which met in February-March 1978.[49]

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[43] TD/B/C.6/7, para. 52.

[44] See "Case studies in reverse transfer of technology (brain drain): a survey of problems and policies in the Philippines", study prepared for the UNCTAD secretariat by F. Makasiar Sicat (TD/B/C.6/AC.4/5), December 1977, para. 67.

[45] On this subject see O. Oldman and R. Pomp, "The brain drain: a tax analysis of the Bhagwati proposal", *World Development* (Oxford), vol. 3, No. 10, October 1975, p. 759 and foot-notes.

[46] See TD/B/C.6/AC.4/5, para. 68.

[47] See *Proceedings of the United Nations Conference on Trade and Development Fourth Session*, vol. 1, *Report and Annexes*, (United Nations publication, Sales No. E.76.II.D.10) annex V.

[48] See A/31/197, annex III, section I.M., para. 7.

[49] *Co-operative exchange of skills among developing countries: policies for collective self-reliance* (United Nations publication, Sales No. E.79.II.D.1).

A. Bases for co-operation among developing countries

60. The rationale for evolving a co-operative approach to skill exchange can be found to exist in the emergence in recent years of two broad trends: (*a*) vast advances in the skill profile of some developing countries and (*b*) accumulating surpluses of investible resources, accompanied by acute skill shortages, in others. Such trends have thus created complementarities between the two groups of countries in their endowment in human and investible resources that may be exploited to mutual advantage under some form of co-operative arrangement.

B. Mechanisms for skill exchange

61. As noted in the UNCTAD secretariat study on the subject, some developing countries have already initiated efforts to organize skill exchanges on a bilateral or subregional basis. In many instances, however, the full scope of these exchanges has yet to be realized owing to a lack of institutional means for effecting such co-operation.[50] A strong case can therefore be made out for creating these institutions, which would provide an opportunity for evolving a more efficient international division of labour in skill production by organizing investment in education (production of skills) and skill transfers (trade in skills) within developing regions or subregions on the basis of comparative advantage.

62. An attempt will be made below to set out some specific proposals in this regard and the steps required to give them concrete form.

(*a*) Arrangements for better *sharing of information* on demand for and supply of skilled professionals within developing countries would seem to be an essential precondition for co-operation. Hitherto, means for securing access to such information have been limited. To fill this gap, appropriate institutional arrangements such as data banks or manpower pools could be set up to provide for periodic exchange of information in a co-ordinated manner on employment and investment outlets within the developing region.

(*b*) Beyond the mere exchange of information, there would appear to be considerable scope for creating or strengthening *institutional interlinkages* between the various national decision-making units concerned with education and manpower planning in developing countries. These could be followed up by efforts effectively to set up joint developing country institutions in these sectors to co-ordinate policies within certain regional or subregional groupings.

(*c*) There would furthermore be scope for *on-the-job training and informal education activities* undertaken jointly by developing countries. There are now a number of such countries where various sectors of economic and technical activities have advanced to an extent that other developing country nationals can obtain, at much lower cost, much more relevant on-the-job training. This may require the establishment of certain arrangements whereby demand for and supply of such training facilities are brought together.

(*d*) A particularly valuable form of co-operative skill exchange could be organized through the institution of *especially designed technical assistance programmes*, administered and financed by developing countries themselves. It should be possible to explore the feasibility of formulating a scheme of this kind, which could be systematized in relation to the short-term and long-term needs and potential of third world countries.

(*e*) Technical co-operation among developing countries could also be fostered through *consultancy agencies, owned and controlled by developing countries, on professional services*, which would (i) receive "preferential treatment" in the execution of development programmes in developing countries and (ii) be encouraged to undertake new forms and types of collaboration with a view to implementing joint projects. The development of such agencies could help to transform the "brain drain" into the supply of services that would bring reasonable gains to the countries supplying them and to those making use of them. Furthermore, the "indigenization" of such services and the process of making them more appropriate to developing country needs would offer wide scope for co-operation among these countries.

(*f*) There would also seem to be strong grounds for exploring possibilities for the establishment of an *organization of skill-supplying countries* to harmonize policies and adopt a joint approach to the production and exchange of skills.

(*g*) *Harmonization of the terms and conditions of employment* in host developing countries would be another critical area for joint action. Very little is known on the subject, and a detailed study could help in the elaboration of standard agreements on employment, remuneration and security aspects of migration within the developing region.

(*h*) Finally, the promotion of co-operative skill exchange in specific areas (as outlined above) has to be conceived within a broader framework of co-operation which takes into account the reciprocal or complementary interests of both skill-exporting and skill-importing developing countries. Thus, to the extent that developing countries which are poor in resources but have a surplus of skilled manpower participated in a scheme encouraging skill transfers on a preferential basis to other developing countries (typically, those rich in resources), it could be fairly expected that the beneficiary countries would wish to contribute to the fair distribution of regional gains by means of an appropriate *reciprocal transfer of resources* (in the form of intergovernmental loans or grants), or by encouraging joint investment projects in skill-exporting developing countries. Much scope exists for studying the various possibilities for establishing such complementary arrangements.

63. A number of possible institutional forms could be used for promoting co-operation in each of the eight specific areas outlined above, ranging from: (*a*) bilateral co-operation between pairs of countries; (*b*) regional or subregional co-operation among groups or subgroups of developing countries; (*c*) interregional or multilateral co-operation involving larger groupings of developing countries.

64. All these arrangements could be used either singly or in combination to assist in working out a new framework of co-operation. However, before this can be done much

[50] *Ibid.*, chap. II.

more diagnostic work is still required to translate the broad ideas on co-operation into concrete and feasible proposals.[51] It was against this background that the Group of Governmental Experts on Reverse Transfer of Technology, after considering the subject, requested the Secretary-General of UNCTAD "to examine the feasibility of various proposals made hitherto regarding co-operative exchange of skills among developing countries".[52] Such an examination could form the next phase of work in this new area of concern to the developing countries.

CHAPTER V

Issues for the conference

65. UNCTAD has been concerned with the subject of reverse transfer of technology since the third session of the United Nations Conference on Trade and Development, in 1972 (see para. 1 above). The secretariat has since prepared nearly 10 substantive studies on the subject, focused on the following: (*a*) international issues; (*b*) case studies, by country, of some of the main issues at the national level; (*c*) study of the scope for co-operative skill exchange among developing countries. These studies have been considered at the intergovernmental level both by the Group of Governmental Experts on Reverse Transfer of Technology, in February-March 1978, and by the Committee on Transfer of Technology, at its second session, in December 1978.

A. Review of intergovernmental decisions on reverse transfer of technology within UNCTAD

66. The first in-depth consideration of the subject at an intergovernmental level took place during the meeting of the Group of Governmental Experts on Reverse Transfer of Technology. Despite the relative novelty of some of the issues and the understandable diversity of views thereon, the Group of Governmental Experts adopted a set of agreed conclusions and recommendations on the basis of recommendations submitted by the Group of 77,[53] fully supported by Group D, and of comments submitted on the "brain drain" problem by experts of Group B.[54] It identified 13 areas of agreement, various areas for further work within UNCTAD, and one area where agreement could not be reached.

67. The Group of Governmental Experts concluded that:[55]

(*a*) The problem of reverse transfer of technology was a multifaceted one encompassing social, economic and development issues as well as other aspects, and that UNCTAD, within its competence, had a role to play in the examination of this process;

(*b*) There was need to study the experiences of countries belonging to different geographical areas in order to have a balanced understanding of the issues and to improve the responses of countries with a view to further appropriate action at the regional and international levels;

(*c*) Concerted efforts were needed at the national, regional and international levels to assist developing countries in finding solutions to the problem;

(*d*) The list of remedies proposed by the Group of 77 constituted a useful contribution in the context of further action by developing countries;

(*e*) The proposals of H.R.H. Crown Prince Hassan of Jordan should be taken into account in the in-depth study to be prepared by the Secretary-General of the United Nations, in co-operation with UNCTAD and ILO, and that study could also examine, *inter alia,* such questions as taxation benefits and currency controls applying to migrants' remittances;

(*f*) Further work by the United Nations system, in a co-ordinated manner, on international resource flow accounting at an expert level, should be directed towards clarifying the methodological aspects of the concepts and procedures to be developed for its practical application.

68. In addition to these conclusions, the Group of Governmental Experts agreed on certain broad guidelines for action by developed and developing countries.[56] These were further elaborated in the recommendations and comments submitted individually at the meeting by the Group of 77 and by experts of Group B.

69. The Group of Governmental Experts also made a number of specific recommendations pertaining to further work on reverse transfer of technology within UNCTAD. It requested the Secretary-General of UNCTAD "to continue, within the work programme of UNCTAD, his studies on the experiences and policies of individual countries to and from which flows of skilled manpower take place and on the modalities for co-operation at the national, regional and international levels; [and] to examine the feasibility of various proposals made hitherto regarding co-operative exchange of skills among developing countries".[57] Furthermore, it recommended that the Committee on Transfer of Technology "consider appropriate arrangements, including the necessity of convening a group of experts, in the light of the co-ordination decisions of the United Nations system, on the examination of the feasibility of measuring human resource flows".[58]

70. Finally, the Group of Governmental Experts took note of an area where agreement could not be reached: the proposal by the experts of the Group of 77, supported by those of Group D, calling for a detailed examination of various revenue-sharing proposals for ensuring that the burdens and benefits resulting from skilled migration were more equitably shared.[59]

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[51] *Ibid.,* chap. IV, sect. B.

[52] TD/B/C.6/28, para. 70, subpara. (3).

[53] *Ibid.*, annex I.

[54] *Ibid.*, annex II.

[55] *Ibid.*, para. 70, subpara. (1).

[56] *Ibid.*

[57] *Ibid.*, para. 70, subpara. (3).

[58] *Ibid.*, para. 70, subpara. (4).

[59] *Ibid.*, para 70, subpara. (5).

71. Having considered the report of the Group of Governmental Experts, the Committee on Transfer of Technology adopted by consensus, on 15 December 1978, resolution 7 (II), on development aspects of the reverse transfer of technology, in which it endorsed the agreed conclusions and recommendations of the Group of Governmental Experts (para. 2). In the same resolution, the Committee requested the Trade and Development Board to invite the Secretary-General of the United Nations to make available the in-depth study on the "brain-drain" problem, taking into account specific proposals made on this subject, including the proposal made by H.R.H. Crown Prince Hassan of Jordan (para. 3). It further requested the Trade and Development Board to invite the Secretary-General of the United Nations to take the necessary decisions on appropriate areas of competence with respect to co-ordination of treatment of the "brain drain" issue within the United Nations system and, in the light of such decisions, requested the Board to consider appropriate arrangements, including the necessity of convening a group of experts, to examine the feasibility of measuring human resource flows and to submit the findings to the Committee on Transfer of Technology (para. 4). The Committee also requested the Secretary-General of UNCTAD, within his mandate, to undertake studies on the experiences of individual countries belonging to different geographical areas in the matter of reverse transfer of technology, as an essential prerequisite for, *inter alia*, consideration of appropriate measures in response thereto (para. 5).

B. The next phase in intergovernmental decisions

72. Quite clearly, the areas of intergovernmental agreement reached so far within UNCTAD provide the starting point for further consideration of the main issues involved and for reaching decisions at the fifth session of the Conference. Moreover, in this regard, special significance attaches to the directives contained in resolution 33/151 on reverse transfer of technology, adopted by the General Assembly on 20 December 1978, and particularly to the paragraphs addressed specifically to the Conference. Thus, in its paragraph 5, the General Assembly

> *Urges* all Member States to give at the fifth session of the United Nations Conference on Trade and Development urgent consideration to the elaboration of measures on the development aspects of the reverse transfer of technology.

In paragraph 6, it

> *Requests* the Secretary-General of the United Nations Conference on Trade and Development to report to the General Assembly at its thirty-fourth session on the results achieved by the Conference at its fifth session on the item entitled "Development aspects of the reverse transfer of technology" and in particular on the work referred to in paragraph 5 above.

73. In view of the endorsement given by the General Assembly to the role of UNCTAD in the matter of reverse transfer of technology, the decisions taken at the fifth session of the Conference will obviously have a major bearing on the determination of the direction of national, regional and international measures that would be required for balancing the respective interests and concerns of both the developing and the developed countries in this regard.

AGENDA ITEM 14*

DOCUMENTS TD/222 AND SUPP.2

Merchant fleet development

Report by the UNCTAD secretariat

DOCUMENT TD/222

[*Original: English*]
[*18 December 1978*]

CONTENTS

Introduction

(i) At its third session, the United Nations Conference on Trade and Development expressly recognized "that developing countries should have an increasing and substantial participation in the carriage of maritime cargoes".[1] Subsequently the Committee on Shipping, at its eighth session, reviewed the situation and concluded that past efforts by developing countries to develop their merchant marines had not been successful to the extent desirable. The Committee noted with concern the present low position of the fleets of developing countries among the world merchant fleets, in particular among the tanker and bulk carrier fleets, and requested the UNCTAD secretariat to prepare a set of guidelines to increase the competitiveness of the merchant fleets of developing countries, especially in the dry and liquid bulk sectors.[2] More recently, the *Ad Hoc* Intergovernmental Working Group on the Economic Consequences of the Existence or Lack of a Genuine Link between vessel and Flag of Registry concluded, *inter alia,* that the competitiveness of the fleets of developing countries was being adversely affected by the

* For the agenda, see vol. I, part three, para. 6.

[1] Conference resolution 70 (III), para. 10.

[2] See *Official Records of the Trade and Development Board, Seventeenth Session, Supplement No. 3* (TD/B/648), annex I, resolution 28 (VIII), para. 1. The guidelines are being prepared by the secretariat.

expansion of open-registry fleets (or so-called flag-of-convenience fleets).[3] At its eighteenth session the Trade and Development Board took note of the report of the Group and requested the Secretary-General of UNCTAD to transmit the report to the Conference at its fifth session.[4]

(ii) The present report discusses the policy issues involved in the development of merchant fleets. Statistical tables indicating the involvement of developing countries in movements of bulk cargoes are to be found in the annexes.

CHAPTER I

The issues

1. The low participation of developing countries in world shipping reflects the manner in which economic institutional arrangements are structured so as to maintain the control over activities in this field by the shipowners and transnational corporations of a small group of developed market-economy countries. Developing countries export 61 per cent of world seaborne cargoes, but they own less than 8 per cent of the world fleet. The contrast is particularly marked in the bulk trades where developing countries export 90 per cent of tanker cargoes and over one third of the main dry bulk cargoes, yet own less than 6 per cent of the world fleet of tankers and bulk carriers.

2. The traditional maritime nations have conceded the right of developing countries to participate in the liner trades,[5] which account for 20 per cent of world cargoes, but, except in very general and indirect terms,[6] they have not recognized the right of developing countries to participate in the world bulk trades, which account for 80 per cent of world cargoes, and in practice many developed market-economy countries (which are the main importers of bulk cargoes) appear to treat their developing trading-partner countries (which are mainly exporters) as if they had no right to participate in this transport. In fact, world bulk transport is dominated by developed market-economy countries, which own no less than 90 per cent of the world bulk fleet.

3. The complex nature of international bulk shipping would make it difficult to evolve any single principle to govern rights in relation to transport. Certain cargoes move on a regular basis and offer constant employment for tankers and bulk carriers plying on shuttle services between trading-partner countries, and such cargoes could be transported by vessels flying the flags of the trading countries. Other cargoes are shipped irregularly and must necessarily be transported in vessels which engage in general world-wide trading. However, there would appear to be no valid reason why the transport of both types of cargoes should continue to be dominated by shipowners and transnational corporations of developed market-economy countries.

4. The developed market-economy countries not only dominate the transport of a much greater tonnage than they generate by their own trade, but maintain their domination despite their increasing inability to supply the shipboard labour which is one of the critical inputs of bulk shipping. Logically, their shipowning corporations might have been expected to transfer some of their investments in order to establish shipping companies in the developing countries that can provide the necessary labour, but instead they use cheap labour from the world's poorer countries and at the same time retain complete ownership and control of the vessels through the device of registering ships under "flags of convenience", without giving an equitable share in the benefits of shipping operations either to the countries which provide the flags or to the countries which provide the labour. In recent years there has been a steady transfer of shipping operations from the flags of developed market-economy countries to the flags of open-registry countries, to the point where a third of the world's fleet is now sailing under flags of convenience.

5. Flag-of-convenience operations have continued because, although it is internationally accepted that there must be a "genuine link" between a vessel and its country of registry, up to the present only certain elements of the link have been identified. The *Ad hoc* Working Group on the Economic Consequences of the Existence or Lack of a Genuine Link between Vessel and Flag of Registry has now identified several elements additional to those previously identified which it stated are "normally relevant" when considering whether a genuine link exists between a vessel and its country of registry;[7] what is now needed is international acceptance of these elements as being indispensable to the existence of a genuine link, so that action could be taken gradually to restrict and ultimately phase out flag-of-convenience operations which are adversely affecting the development of the national flag fleets of developing countries. A gradual closure of the open registers would also enable countries at present offering open-registry facilities to benefit from an increasing participation in the operation of ships registered under their own flags.

6. Developing countries have two valid grounds for claiming increased participation in shipping: first, they are trading nations which generate cargoes; and second, they can operate more economically than the traditional maritime countries can operate under their own flags. For many developing countries, entry into bulk shipping would offer a logical avenue for industrial development since it is a direct downstream activity for those countries which serve as quarries, mines and wells for the extractive industries of developed countries; it would offer the developing countries a direct possibility for evolving from their present passive role as suppliers of natural resources to an active

[3] Report of the *Ad hoc* Intergovernmental Working Group on the Economic Consequences of the Existence or Lack of a Genuine Link between Vessel and Flag of Registry (TD/B/C.4/177), annex.

[4] See the report of the Trade and Development Board on its eighteenth session (*Official Records of the General Assembly Thirty-third Session, Supplement No. 15* (A/33/15), vol. II), para. 447.

[5] 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).

[6] See Conference resolution 12 (II), para. 1; Conference resolution 70 (III), paras. 8 and 10; and General Assembly resolution 3202 (S-VI) of 1 May 1974, sect. I, 4 (*a*).

[7] See para. 1 (*b*) of the resolution adopted by the *Ad hoc* Intergovernmental Working Group (TD/B/C.4/177, annex).

role contributing to the economy and the balance of payments. Whether or not particular developing countries wish to expand into bulk shipping is a matter for them to determine for themselves,, but a refusal of their claims to participate could only be interpreted as a determination to maintain existing institutional arrangements and to prevent developing countries from developing in accordance with the new international economic order.

7. There is therefore, a need for new mechanisms that would ensure reorientation of the international relations in shipping so that developing countries can achieve increasing participation in the world bulk fleet. Fragmented measures on some aspects only are not sufficient: a comprehensive set of measures is needed.

CHAPTER II

Review of past progress

8. Although the bulk sector of shipping accounts for roughly 78 per cent of the world cargo tonnage loaded (about 54 per cent on tankers and about 24 per cent on bulk carriers), past efforts of developing countries to build up their merchant fleets have been concentrated in the liner sector, which accounts for only about 20 per cent. This is attributable to a number of factors.

9. A considerable amount of bulk cargo is transported by "industrial carriers"—i.e. vertically integrated industries which own or control tankers and bulk carriers—and to a large extent developing countries have not been directly involved as users of bulk vessels. In so far as they have been direct users, bulk shipping has always been relatively satisfactory, as regards both the services provided and the rate levels. Bulk shipment (i.e. shipment of complete shiploads of homogeneous products between a limited number of ports) is a technically efficient operation and relatively inexpensive. On the other hand, liner shipping has been a constant source of dissatisfaction, especially as regards rate levels. Liner shipment (i.e. the shipment of small consignments of heterogeneous cargoes between a large number of loading and discharge ports) is a relatively inefficient and expensive operation in the technical sense; moreover, in ocean trades, rates are determined by price-fixing cartels—the liner conferences. Liner shipping has therefore come to be regarded as the sector requiring action in the first instance and many developing countries have reacted by building up liner fleets in the expectation that ownership of their own liner vessels would reduce rate levels, or at least bring home a share of the profits commonly attributed to liner operations. Some developing countries have also been attracted to investments in liner shipping by the high levels of freight rates and the consequent expectation of foreign-exchange savings and earnings.

10. At the same time, certain factors have tended to repel developing countries from becoming involved in bulk shipping. Unlike liner vessels, which sail on fixed routes, most "independent" tankers and bulk carriers (i.e. those not owned by the vertically integrated industries) engage in world-wide trading away from their home countries. World-wide trading has appeared relatively complex to many countries, compared with the simplicity of operating a liner service to and from the home country, carrying cargo generated by the country's trading activities, and in respect of which the country may claim some natural right to participate in the carriage.

11. The tankers and bulk carriers operated by industrial carriers often sail on set routes to or from developing countries, but these countries have often found themselves powerless to intervene in vertically integrated operations. For example, oil-producing countries have purchased tankers but have been unable to obtain employment for them because the transnational oil companies control transport, distribution and marketing.

12. Furthermore, although many developing countries ship bulkable quantities of particular commodities, they nevertheless often rely upon liner services for historical reasons dating from an earlier period when the total quantities were insufficient to justify bulk shipments. In such instances, the countries have usually concentrated on trying to improve the liner system rather than on trying to switch to more economical bulk methods, since a change-over to bulk shipping would mean a change not only in shipping methods but also in the marketing and distribution systems inherited from the colonial era, and this would involve more complex policy decisions. Developing countries concentrated their efforts in the international forums on securing—and succeeded in securing—recognition of their right to participate in the liner trades.

13. For all these reasons, most developing countries which have acquired fleets have entered the liner trades rather than the bulk trades. For the most part they have followed the pattern set by the traditional maritime nations in whose trades they have sought to participate: they have ordered conventional general cargo vessels; they have followed the same trade routes, become members of the same liner conferences, and generally charged rates fixed by the liner conferences in which the traditional maritime nations hold the majority of the voting power. The liner companies of developing countries have undoubtedly ensured a more sympathetic hearing by the liner conferences of the problems besetting those countries and more favourable rates for specific commodities in most trades, and they have brought home some of the shipowning profits which would otherwise have been earned by the traditional maritime countries. Nevertheless, the problem of reducing rate levels still calls for attention.

14. In the future the developing countries will need to formulate a policy which will ultimately give them the liner services they need as ship-users and, at the same time, provide scope for national flag participation, taking into account the fact that participation usually involves joining the very cartels whose activities have traditionally been regarded as contrary to the interests of developing countries.

15. Concurrently, the traditional maritime nations, which suffer from high labour costs, have been divesting themselves of labour-intensive general cargo vessels in their liner trades and investing in capital-intensive container ships. Since container vessels are capable of a higher number of round voyages per annum than are general cargo liners, the developed market-economy countries (which own almost all of the container ships in the world fleet) have a higher cargo-carrying capacity in the liner sector

than their fleet percentage would suggest. Equally, the 15 per cent share which developing countries hold in the general cargo fleet gives an exaggerated impression of their share in the world cargo-carrying capacity.

16. At the same time, the high crew costs of the traditional maritime nations have adversely affected their ability to participate in the bulk trades. In the liner trades a country may sometimes offset high crew costs by efficient cargo-handling methods which reduce the amount of time and labour engaged in stevedoring activities, thus maintaining its competitive position against countries with lower crew costs. But the bulk trades are usually operated on an f.i.o. basis (which means that the stevedoring operations are undertaken by the shipper and consignee) so that no such offsetting is possible. In the liner trades, too, the high-cost countries have been shielded from lower-cost competition by the conference cartel arrangements, but in the bulk trades they have no such protection. Faced with the direct impact of their high crew costs, and the increasing difficulty which they are having in persuading men to go to sea whatever the wages, the richer countries have been forced to look for cheaper and more available labour. Since capital and voyage costs are practically the same for vessels of all flags, shipowners operating under different flags can only increase their competitiveness by reducing their daily operating costs (of which crew costs are the biggest item).[8]

17. The laws of most maritime countries restrict, or even prohibit, the employment of foreigners on national flag ships, for reasons of safety and defence and because of the difficulties of operating such a small community unit as a ship with mixed nationalities.

18. In this situation it might have been expected that corporations of the developed market-economy countries would have established subsidiary or affiliated shipping companies in countries with a supply of cheaper labour. This would mean setting up joint ventures in developing countries, renouncing some of their exclusive control and allowing a degree of participation by the countries concerned. This undoubtedly would have occurred but for the existence of several countries offering open-registry facilities. These open-registry countries are prepared, for a small fee, to "sell" their flags to shipowners of other countries without asking in return for any of the powers of control or participation which are normally exercised and enjoyed by countries under whose flags ships are registered.

19. The fleets of the open-registry countries offering "flags of convenience" have grown from 21.6 per cent of the world deadweight tonnage at the beginning of the 1970s to 31.7 per cent in mid-1977. During the same period, the percentage of vessels registered in the developed market-economy countries declined from 64.7 per cent to 53.8 per cent, indicating a steady transfer of operations. In mid-1977, 56 per cent of the open-registry fleet consisted of tankers, and a further 27 per cent were bulk carriers. Only 14 per cent of the open-registry fleet consisted of general cargo vessels, and a proportion of these would have been employed in the bulk trades. The only vessels which can be clearly identified as liner vessels—i.e. container ships—accounted for only 0.5 per cent of the open-registry fleet.

20. Shipowners who have resorted to flags of convenience have not been motivated solely by their labour problems but also by a desire to evade or avoid taxation, to have complete freedom in utilizing their cash flows, and to avoid various national laws and controls which they regard as irksome. However, the fact that the major transfer of operations has occurred in the bulk sector (where, as already noted, the impact of high crew costs is especially severe owing to the lack of offsetting possibilities in f.i.o. operations and the lack of conference price-fixing arrangements) suggests that labour problems have played a prominent role in motivating the transfer from the flags of the richer countries, and in the absence of open-registry countries developing countries might be expected to benefit from a greater participation in bulk shipping.

21. Developing countries have two valid grounds for claiming increased participation in bulk shipping. First, countries may claim some rights to participate in the transport of cargoes which are generated by their own foreign trade—just as they have claimed, and obtained recognition of, the right to participate in the carriage of liner cargoes generated by their trading activities. Secondly, those countries which supply the labour needed to man tankers and bulk carriers may reasonably claim a greater participation in bulk shipping operations than they currently have as mere providers of shipboard labour to foreign-flag vessels.

22. Some spokesmen from the traditional maritime nations oppose any claims to transport bulk cargoes by the national vessels of the trading countries concerned on the grounds that any such interference with the free market would increase transport costs. These arguments are valid with regard to certain segments of the bulk trades (for example, in the spot market, where insistence upon a particular flag could involve positioning costs and deprive a country of the use of a vessel already in position), but defective in ignoring the substantial segments of the bulk trades which do not come on the open market and which are handled by vessels in constant employment on regular shuttle services. Cargo carried by operations of the latter type could be shipped by national-flag vessels without creating undue problems. Hitherto, arguments on this issue have been advanced mainly in terms of assertions and counter-assertions: what has been needed is a statistical examination of the bulk trades to determine the actual involvement of developing countries in bulk cargo trades and to determine the extent to which their bulk cargoes are being handled by vessels in regular employment, as distinct from irregular sailings by vessels operating on the world-wide market.

23. Equally, the developing countries which are at present supplying shipboard labour for flag-of-convenience vessels engaged in world-wide trading could increase their participation in such operations without disrupting the open market.

24. In considering the possibilities for fleet expansion by the developing countries, the tanker and bulk carrier sectors obviously deserve priority, as these are the sectors in which progress has been lagging. However, attention also needs to be given to liner fleet development. It is necessary

[8] According to *Shipping*, a brochure issued by the Swedish Shipowners' Association in 1978, the daily costs for a 200,000-ton tanker amount to $8,000 under the Swedish flag but to only $4,100 under a flag of convenience. See also "Comparative labour costs: report by the UNCTAD secretariat" (TD/222/Supp.4).

to examine the possibilities not only for increasing participation but also for holding down rate levels, and to consider whether it would be desirable for developing countries to follow the industrialized countries in switching to container operations.

CHAPTER III

Liner fleet development

25. Policies relating to liner fleet development need to be formulated in order to obtain economical services and to extend participation by national-flag vessels.

26. The high level of liner rates is partly attributable to the price-fixing arrangements of the liner conferences which national lines are impelled to join, but it is also attributable to the high level of costs. While liner costs will inevitably be higher than costs in the bulk trades because of the very nature of liner operations, the fact remains that in many, if not most, liner trades costs are unnecessarily high as a result of overtonnaging, duplication of services, and the use of liner services for commodity movements which could be handled more economically by bulk methods. This is an area in which action by developing countries is both possible and feasible.

27. In most liner conferences traditional practice has been to conceal rather than explore the operational wastage caused by overtonnaging and duplicated services since, in the absence of pressure from effective shippers' organizations, it has been simpler to pass on the costs in the form of higher freight rates than to eliminate the inefficiency by rationalizing services. Developing countries can reverse this trend by insisting upon an open examination of the cargo services actually required in terms of the tonnages moving and the arrival and departure frequencies needed, and by pressing for services to be rationalized so as to match the actual requirements. Where the cargo tonnages are insufficient to fill vessels of each and every trading country, while observing the sailing frequencies required for trading purposes, the obvious solution lies in the institution of joint sailing arrangements whereby neighbouring countries can share the use of each others' vessels on successive sailings. This applies to developed as well as to developing countries.

28. At the same time it is essential to investigate the possible use of bulk techniques for the movement of commodities which have been traditionally shipped by liner services. Such investigations are being facilitated by the rapid strengthening of commodity groups, which, following the impetus given by the Integrated Programme for Commodities,[9] have become much more conscious of the desirability of better organization among their members and of the possibilities for collective bargaining on the open market to obtain cheaper transport services. Several successful moves have already been made in this direction and commodity groups have found that, whether or not they actually move outside the liner system to adopt bulk methods, they have increased their bargaining powers in dealing with the liner conferences and, in the process, have forced liner operators to become much more cost-conscious.

29. A conflict may arise between a developing country's shipowning interests and its interests as a ship-user if its national shipping line persists in operating its vessels as traditional liners, while at the same time a commodity group within the country decides that the preservation of its market position calls for a lowering and stabilization of freight rates which could be achieved only by switching to bulk methods. Such a conflict may be avoided, however, if the Government is constantly reassessing the types of shipping services which the country needs. Many of the commodities being shipped from developing countries have "outgrown" the traditional liner services, which were developed to handle smaller quantities in colonial days, and many of the general cargo vessels which developing countries are currently operating in the liner trades may perform more useful services for their countries if switched to bulk (or "neo-bulk") services to cater for commodity movements which cannot withstand the high freight rates applicable to frequent, multiport liner services. This applies particularly to primary products which have to compete against synthetics on the overseas markets. A reassessment of a country's frequency needs as regards imports may well reveal that imports also could be adjusted to meet the sailing frequencies determined by bulk or neo-bulk exports, thus providing economical employment for vessels in both directions.

30. At the other extreme, in so far as a developing country needs fast, frequent liner services with short transit times, serious consideration should be given to the operation of container vessels, this being one segment of the liner trades in which the developing countries are seriously lagging behind the traditional maritime countries. While developed countries might be expected to own the major percentage of the world container fleet (since most of the containerized traffic moves from one developed country to another), there is no valid reason why container services between developed and developing countries should be dominated by operators from the traditional maritime nations.

31. In establishing container services it is essential that developing countries should relate their plans to their actual needs and not, as some of the industrial countries have done, build vessels which can only be filled by loading containers with cargo which could be shipped more economically by neo-bulk services. Shippers of low-value neo-bulk items which cannot stand high freight rates should not be forced to use containers.

32. Developing countries cannot look to the traditional maritime nations to provide them with a lead for liner fleet development because too many vested interests are involved. A country which seeks participation merely by following leads established by the traditional maritime countries may find that it gains the participation it seeks yet fails to provide the services which its trading interests need.

33. Developing countries, therefore, need to make their own assessment of the types of liner services which should be provided.

[9] See Conference resolution 93 (IV).

CHAPTER IV

Bulk fleet development

A. Competition in bulk shipping

34. Before discussing the steps that could be taken to increase the participation of the bulk fleets of developing countries it is first necessary to examine the manner in which the bulk fleets of the traditional maritime countries obtain employment. As noted in chapter II, some vertically integrated industries ("industrial carriers") own vessels to transport cargoes which they themselves control. Otherwise shipowners obtain cargoes either by "private fixtures" (i.e. by directly negotiating with cargo-controlling interests) or by "fixing" vessels on the open market through the shipping exchanges. Fixtures of either type can secure employment for a single voyage, a series of consecutive voyages, or a specified period of time, though most long-term contracts of affreightment are negotiated privately. Industrial carriers normally own insufficient tonnage to cover all of their requirements and obtain the balance by time charters (normally to cover long-term purchases or sales) and voyage charters (normally to cover spot purchases and sales).

35. The tonnage covered by fixtures reported on the open market amounts to only around 10 per cent of the total tonnage carried by non-liner methods. The remaining 90 per cent is carried by industrial carriers or under private fixtures, but the relative role of industrial carriers and shipowners operating under private fixture is not entirely clear. It is known that the transnational oil companies own 40 per cent of the active world tanker fleet and control another 34 per cent through time charters, but no comparable figures are available for the world bulk carrier fleet.

36. The term "private fixtures" covers several different types of arrangements, the relative weights of which are unknown. In some instances, parties negotiate fixtures more or less at arm's length, each being influenced partly by knowledge of the rates and conditions obtainable on the open market, and partly by past experience of the other as a business partner. In other instances, the companies which own the cargo are under government pressure to use carriers of a particular flag, in which case the open market conditions are of very limited relevance to the negotiating parties.

37. On the open market, bulk shipping is highly competitive in the sense that shipowners compete by their ability to undercut their competitors and by their record of efficiency as carriers. The same considerations apply to bulk shipping operated under the types of private fixtures which are influenced by the open market. As already noted, the device commonly used by shipowners from countries with high cost levels to remain competitive is to register their vessels under flags of convenience, whereby they gain not only the use of cheaper labour but also other financial advantages, such as freedom from taxation.

38. Otherwise, however, it would appear that bulk shipowners compete for employment to a large extent by competing to secure some sort of tie over cargo movements, either directly or by entering into contractual arrangements with parties who control tied cargoes. The cargoes of industrial carriers are clearly "captive cargoes", as are many of the cargoes covered by private fixtures between affiliated companies, but even where cargoes are not actually owned by the shipowner or an affiliate, an owner may nevertheless secure an indirect tie on a cargo movement by long-term contractual arrangements. In fact, shipowners often obtain finance for new buildings by virtue of the fact that they have tied the cargoes under long-term arrangements. In certain segments of the bulk trades this aspect appears to be vital: shipowners who can operate efficiently and economically may still fail to gain employment for their vessels if they are "shut out" from the contractual and other arrangements which tie the cargo.[10] Secure employment reduces operating costs, because a shipowner with guaranteed employment can secure much better terms for financing the purchase of a vessel and reduce his management costs.

39. Developing countries seeking to increase participation in the carriage of bulk cargoes generated by their own trade would logically start with those cargo movements which offer constant employment for bulk carriers or tankers, rather than with cargoes which are carried by irregular sailings of vessels employed in world-wide trading, and it would appear that efforts should be concentrated on examining the manner and extent to which such cargoes are at present tied to foreign enterprises. At the present time, many of the natural resources of developing countries are being exploited under government contracts which leave shipping rights in the hands of the concession-holding foreign company. This applies particularly to the oil-producing developing countries. Similarly, many developing countries are importing petroleum and other bulk items under contracts which leave transport arrangements in the hands of the supplier companies. Developing countries could well examine the possibilities, when renewing or renegotiating such contracts, of including tie-clauses to secure a reasonable portion of such cargoes for carriage in national flag vessels. They could then follow the tactics of the shipowners of developed countries in basing their bulk fleet expansion upon tied cargoes.

40. In identifying appropriate cargo movements it is necessary to identify not only those which actually offer, but also those which could offer, constant employment. Many bulk movements, especially in the petroleum trades, appear to be appropriate for regular shuttle services but are in fact being wholly or partly served by vessels engaged in irregular world-wide trading. It is possible that the trading patterns of such vessels are determined not by factors affecting cargo but by the owners' preference for particular ports for dry-docking and for crew changes (although air transport is being used increasingly for crew changes). National flag vessels, employing national crews and using national or regional dry-docking facilities, may be able to operate regular shuttle services. Such matters need to be investigated.

41. Traditional maritime circles question whether developing countries could operate tankers and bulk carriers as efficiently as traditional operators. However,

[10] The manner in which tanker cargoes are controlled is described in document TD/222/Supp.3, reproduced in the present volume. It has not yet been possible to compile similar information on the control of dry-bulk cargoes.

even if the traditional maritime countries' fleets are operating more efficiently, there is no evidence to suggest that the benefits of this extra efficiency are being passed on. A transnational oil company, for example, may time-charter a tanker at world market rates but sell the petroleum to a developing country at a lump-sum price which includes the price of the oil and insurance and an inflated price for transport. Similarly, the f.o.b. prices paid to developing countries for exports do not necessarily reflect the low freight rates available on today's market.

42. However, there appears to be no substantial reason why developing countries could not operate tankers and bulk carriers economically. Developing countries can supply shipboard labour at wage levels below those prevailing in developed countries, and in some instances below the levels prevailing on flag-of-convenience vessels. Furthermore, in many respects they need less expertise to operate tankers and bulk carriers, particularly for bulk operations under long-term contracts, than they need for liner operations. The efficiency of a liner operation depends very largely upon the efficiency of voyage planning and cargo handling, which require a high level of expertise, whereas in operations under f.i.o. conditions the consignor and consignee take care of loading and discharging, and voyage patterns are much simpler. The one competitive disadvantage which developing countries would inevitably suffer would be their inability to compete with the tax and other financial advantages enjoyed by owners operating under flags of convenience.

43. This disadvantage (which equally affects the national flag fleets of developed countries) calls for restraint of activities of the open-registry fleets. This would mean the loss of their tax-free advantages, but there is no evidence that these were ever passed on to shippers anyway.

44. Developing countries, which have valid claims to increased participation in bulk shipping by virtue of their role as suppliers of shipboard labour, have even stronger reasons for calling for the ultimate closure of open registers. In fact, the closure of open registers is the only factor likely to induce the shipowners of the richer countries to transfer some of their investments in order to establish shipping companies in the developing countries which can supply shipboard labour.

45. The open-registry fleets constitute a phenomenon which has built up during the past two decades, and it would be unrealistic to expect any sudden closure of open registers. Nevertheless, it would not be unreasonable for the countries which are promoting their national flag fleets to press for a gradual closure of the open registers over a period of years. To achieve a closure, in practical terms it would be necessary to reach world-wide agreement on the necessity for a vessel to contribute to the national economy of the country of registry, for countries of registry to have an equitable participation in the beneficial ownership of vessels, and for such countries to be entitled to employ their nationals on board vessels and to include the revenues and expenditures, as well as sales and purchases of vessels, in their national balance-of-payments accounts.[11] Furthermore, it would probably be necessary to secure international agreement to "freeze" existing open registers and to take punitive action against any country trying to establish a new open register, on the understanding that the countries at present offering open-registry facilities would close their registers over a period of years while gradually increasing their demands for participation in beneficial ownership and employment rights.

46. The closure of open registers is, however, a long-term measure. In the immediate future the possibilities for bulk fleet expansion depend upon an examination of existing bulk cargo movements. Dry bulk and tanker cargoes must each be examined in order to determine the involvement of developing countries.

B. Dry-bulk cargoes

47. The cargoes carried by dry-bulk carriers consist mainly of five commodities: iron ore; coal; grain;[12] phosphate; and bauxite/alumina. Together, the five "major bulks" (as these are known) amounted to 646 million tons in 1976 (the last year for which figures are available) and accounted for 78 per cent of all cargoes carried by bulk carriers, and for 19 per cent of all world cargoes. The remaining 22 per cent of cargoes carried by bulk carriers (amounting to 5 per cent of world cargoes) consists of about 15 "minor bulk" commodities[13] which are sometimes shipped by the full shipload in bulk carriers and sometimes shipped either as liner cargo or as full loads on general cargo vessels. In 1976, the minor bulk commodities shipped on bulk carriers amounted to 178 million tons.

48. To determine which of these bulk movements might form an appropriate base for developing the bulk carrier fleets of developing countries, data have been extracted from 1975 and 1976 trade data on all movements of the five major bulk commodities from or to developing countries which amount to 100,000 tons per annum or more (see annex I).

49. The existence of a cargo flow of 100,000 tons or more does not in itself indicate the existence of a regular bulk service since much depends upon the size of the vessels, sailing frequencies and distances, but generally speaking movements of less than 100,000 tons are likely to be served by occasional sailings rather than by regular shuttle services (though exceptions may occur on short-haul routes, for example, within the Mediterranean). This figure has, therefore, been selected as the lower limit for the purpose of arriving at a preliminary global estimate of the involvement of developing countries in regular shuttle movements of the five major bulk items.

50. Annex I shows that 52 developing countries and territories are involved in substantial movements of the major dry-bulk cargoes, 15 as exporters only, 19 as importers only, and 18 as both exporters and importers. An even greater number would be involved if the movement of minor bulk items by bulk carriers were taken into account.

51. As regards exports, the global position is summarized in table 1.

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[11] On this aspect, see the resolution adopted by the *Ad hoc* Intergovernmental Working Group (TD/B/C.4/177, annex).

[12] In this context, "grain" comprises wheat, maize, barley, oats, rye, sorghum and soya beans.

[13] Manganese ore, mineral sands, raw sugar, scrap, pig iron, gypsum, coke, salt, timber, sulphur, cement, iron pyrites, steel, non-ferrous ores, fertilizers.

52. The global position as regards imports is shown in table 2.

53. In total, therefore, developing countries are involved in substantial movements of the major dry bulk items, amounting to 201 million tons per annum as exporters, 37 million tons as importers, and 6.5 million tons as both exporters and importers.

C. Tanker cargoes[14]

54. Tanker cargoes, which account for about 54 per cent of total world seaborne cargoes, consist of two main items: crude petroleum and petroleum products. In 1976, shipments amounted to 1,418 million tons of crude oil, and 260 million tons of oil products.

55. The 14 developing countries which constitute the world's major oil producers[15] exported 91 per cent of the total crude oil carried by sea in 1976, while another 12 developing countries which are minor exporters of crude oil[16] exported a further 4 per cent.

56. The situation of these oil-exporting countries in relation to world exports of crude oil is fairly well documented and does not call for detailed discussion in the present context: the global situation in 1975 is summarized in table 3.

57. Annex II gives estimates of the seaborne imports of crude oil by developing countries in 1975, together with estimates of the tonnages imported from different supplier countries. These indicate that 55 countries[17] imported a total of 206 million tons, importing 91 per cent (187.8 million tons) from the major oil producers, 0.6 per cent (1.2 million tons) from other developing countries, 4 per cent (7.7 million tons) from socialist countries of Eastern

[14] For further data on this topic see document TD/222/Supp.3, reproduced in the present volume.

[15] Algeria, Ecuador, Gabon, Indonesia, Iran, Iraq, Kuwait, Libyan Arab Jamahiriya, Nigeria, Oman, Qatar, Saudi Arabia, United Arab Emirates, Venezuela.

[16] Angola, Brunei, Brazil, Congo, Egypt, Malaysia, Mexico, Netherlands Antilles, Peru, Syrian Arab Republic, Trinidad and Tobago, Tunisia.

[17] This figure excludes Bahrein, which occupies a special position since it is basically an exporter of oil products which it refines from crude oil imported from neighbouring countries. Some other countries and territories also perform a similar function but, unlike Bahrein, they are located away from the sources of production.

TABLE 1

Exports of major dry-bulk cargoes by developing countries

	Tonnages imported by trading-partner countries (thousands of tons)			
Exports of developing countries	*Developing countries*	*Developed market-economy countries*	*Socialist countries of Eastern Europe*	*Total*
Iron ore	2 000	146 900	6 200	155 100
Coal	160	–	–	160
Grain	2 608	2 482	702	5 792
Bauxite/alumina	110	20 701	1 986	22 797
Phosphate rock	1 600	17 100	5 000	23 700
Total	6 478	187 183	13 888	207 549

TABLE 2

Imports of major dry-bulk cargoes by developing countries

	Tonnages imported by trading-partner countries (thousands of tons)			
Imports of developing countries	*Developing countries*	*Developed market-economy countries*	*Socialist countries of Eastern Europe*	*Total*
Iron ore	2 000	600	–	2 600
Coal	160	3 830	1 660	5 650
Grain	2 608	28 785	–	31 393
Bauxite/alumina	110	335	–	445
Phosphate rock	1 600	2 000	–	3 600
Total	6 478	35 550	1 660	43 688

TABLE 3

Exports of crude oil by developing countries, 1975

Exporting developing countries	*Imports by trading-partner countries (millions of tons)*				
	Developing countries		*Developed market-economy countries*	*Socialist countries of Eastern Europe*	*Total*
	14 major producers	*Others*			
14 major producers	1.0	204.3	1 114.8	18.3	1 338.4
Approximately 12 minor exporters . . .	-	7.9	50.9	0.8	59.6
Total	1.0	212.2	1 165.7	19.1	1 398.0

Europe, and 0.1 per cent (290,000 tons) from developed market-economy countries. The suppliers of about 4 per cent of their imports are unknown.

58. In so far as suppliers are known, it may be said that 35 of the above countries imported from a single supply area, eight from two areas, six from three areas, and four from four areas. Subject to more detailed examination, many of these crude oil import movements could well provide an appropriate basis for operating national flag tankers in regular employment.

59. Although export and import figures cannot be completely reconciled, it appears that developing countries are involved in crude oil movements in the region of 1,185 million tons per annum as exporters, 213 million tons as importers and 8 million tons as both exporters and importers.

60. Movements of oil products are more difficult to identify than those of crude oil on account of the scarcity and unreliability of statistical data. Except for some of the major movements involving developed market-economy countries, it is difficult to identify trading-partner countries, to separate seaborne from landborne movements, and to isolate tonnages exported in ships' bunkers or as aircraft fuel. The product trades are more complex than the crude oil trades because products are exported not only by oil producers but also by non-producing countries that possess refineries. The term "petroleum products" embraces more than 10 subitems, and importers often have to draw their supplies from different sources, so that annual movements are not only much smaller than those of crude oil, but more fragmented.

61. Annexes III and IV list available data on the exports and imports of petroleum products by developing countries. Table 4 summarizes the position as regards the main exporting and importing countries.

62. The remaining exports and imports listed in annexes III and IV appear unlikely to provide a basis for regular national-flag tanker operations, at least on the part of individual countries, though further examination may indicate some scope for joint tanker operations by neighbouring countries which collectively import substantial quantities, and in some instances small countries located near sources may be able to keep small tankers in continuous employment. For present purposes it is assumed that the best prospects would lie with the 66 countries indicated above. On the assumption that about 70 per cent

TABLE 4

Exports and imports of petroleum products by developing countries: summary

Group of developing countries	*Exports (millions of tons)*	*Imports (millions of tons)*
14 major oil producers plus Bahrein . . .	81.3	8.0
8 countries each exporting more than 1 million tons[a]	86.2	
9 countries each importing more than 1 million tons[a]		31.9
35 countries each importing from 0.2 to 1 million tons		15.9
Total (66 countries)	167.5	55.8

[a] Including Netherlands Antilles and Singapore.

of the imports (i.e. 39.1 million tons) were supplied by developing countries (which would be in accord with global figures), the 66 developing countries appear to be involved in movements of 125 million tons as exporters and 18 million tons as importers, and in movements of around 39 million tons both as exporters and as importers.

D. Tentative assessment

63. As trading nations, developing countries are involved in annual shipments of around 1.8 billion tons of bulk cargoes which, subject to more detailed examination, may provide regular employment for tankers and bulk carriers on set routes, and hence opportunities for bulk fleet expansion by developing countries by virtue of their positions as trading nations. Details are shown in table 5.

64. In considering claims of developing countries to participate in the carriage of bulk cargoes generated by their trade it is also necessary to consider the claims of trading-partner countries. But it must be noted that the main partner countries in the bulk trades are the developed market-economy countries which, as noted above, are becoming increasingly incapable of operating bulk fleets economically under their own flags and which can only continue bulk operations by registering their vessels under flags of convenience. If, therefore, open registers were to be closed such countries might not press claims to carry cargoes on national flag vessels, but might be content to leave transport in the hands of developing trading-partner countries which could perform the task more economically.

TABLE 5

Annual shipments of bulk cargoes by developing countries

(Millions of tons)

Bulk cargoes of developing countries	*Exporters only*	*Importers only*	*Exporters and importers*	*Total*
5 major dry bulk items	201	37	7	245
Crude oil	1 185	8	213	1 406
Petroleum products	125	18	39	182
Total	1 511	63	259	1 833

65. Allowing for the fact that, on average, bulk vessels carry 4 to 5 tons of cargo per dwt per annum, the tonnages listed above would require a bulk fleet with a capacity of some 350 to 400 million dwt, which is over ten times the dwt capacity of the bulk fleets which developing countries owned in mid 1977. Therefore, even allowing for the fact that closer examination may reveal that some of the cargo movements are unsuitable for regular vessel employment, and taking into consideration claims to participate in carriage by trading partner countries, developing countries would appear to have abundant scope for expanding their bulk fleets by virtue of their position as trading nations, if only they could secure a greater degree of control over cargo movements.

66. The above assessment takes no account of the possibilities which would become available to developing countries by a closure of the open registers for participating in the cross-trading activities of the world-wide trading fleet, whose operations are necessary to transport cargoes which cannot maintain vessels in regular employment. In this sector, too, the potential scope for expansion is abundant, having regard to the fact that the present open-registry fleet is five-and-a-half times the size of the present bulk fleet of developing countries.

CHAPTER V

Financial aspects

67. During the early part of the 1970s, finance was an acute problem for developing countries seeking to establish or expand their merchant fleets, and much of the effort of developing countries was directed towards easing the terms of credit.[18] At that time, prices were high both for new and for second-hand vessels, and suitable financial credits were equally difficult to obtain for the purchase of new or second-hand ships.

68. As from the middle of the decade, the world recession led to a surplus of shipping, and this in turn led to a marked fall in the price of second-hand vessels, especially of tankers and bulk carriers. However, the recession also led to a surplus of shipbuilding capacity and, notwithstanding the availability of good second-hand vessels at low prices, the developed market-economy countries with shipyards have been endeavouring to stimulate the building of new ships in order to keep their yards employed. The net result is that it is now easier for developing countries to obtain finance for the purchase of new ships than for the purchase of second-hand ships at low prices.[19]

69. Finance for fleet development can take the form of commercial credits or of development aid. Commercial terms are still not suitable for developing countries and need to be eased. The terms available under development aid are considerably more favourable, but such aid is confined almost entirely to the purchase of new ships, the prices of which are higher than those of second-hand vessels. The major beneficiaries of such aid programmes are thus the shipyards of the donor countries rather than the merchant fleets of the "recipient" developing countries, and there is a clear need for aid funds to be made available for the purchase of second-hand vessels.

70. In numerous instances, however, it is apparent that lack of finance for fleet development is primarily attributable to the inability of the country concerned to meet some of the essential pre-conditions for obtaining finance, such as the lack of legislation which would make possible the registration of a ship subject to a mortgage.

71. Equally important is the ability of the borrowing country to obtain secure employment for the vessel, and thus to provide some assurance regarding its ability to meet loan repayments.[20] In the liner trades the Convention on a Code of Conduct for Liner Conferences safeguards the right of developing countries to participate in the carriage of cargoes generated by their own trade, but it is still necessary to ensure that these cargoes correspond to the capacities of the vessels being purchased. In the bulk trades no such safguards exist, and the best way in which a country can satisfy lenders of its ability to meet repayments would be by securing a tie on cargo which would keep a vessel in regular employment. In fact, the question of access to cargoes is quite vital when considering the possibilities of financing purchases.

72. In so far as the gradual reduction of the open registers will create opportunities for developing countries to participate in world-wide trading with tankers and bulk carriers, this development should not require new investment by developing countries equivalent to the full value of

[18] See Conference resolution 70 (III).

[19] See in this connexion the report of the Group of Experts on Improved Methods of Financing Ship Acquisition by Developing (Countries (Geneva, 29 May-2 June 1978) (TD/B/C.4/179).

[20] See foot-note 5.

the vessels added to their national fleets; rather, it should result in a transfer of the investments of transnational corporations in vessels registered under flags of convenience, capital investments by the new developing countries of registry being limited to the amounts needed to cover their equity participation.

73. Spokesmen for the traditional maritime countries often argue that developing countries should refrain from entering the bulk trades on the grounds that current market rates would make the high investments involved unprofitable. However, the current low prices for second-hand vessels reduce the investment needed, and a bulk operation which may be unprofitable for a developed country using a high-cost crew on a ship purchased at a high capital cost may be profitable for a developing country using a low-cost crew on a second-hand vessel purchased at today's low prices. Furthermore, the profitability of bulk operations can only be considered over a period, taking into account the market peaks as well as the troughs.

74. Investment in shipping might also open the way for investment in shipyard activities in developing countries. With national-flag vessels to provide sufficient business to justify the initial investment, yards can be expected to attract additional business from the owners in developed market-economy countries with high shipyard costs.

CHAPTER VI

Policy recommendations

75. An examination of the world shipping scene shows that the market mechanisms prevailing in international shipping, especially in the bulk sector, have led to adverse and abnormal developments in maritime transport and have in particular restricted the growth of the merchant marines of developing countries. Removal of the barriers to the increasing participation of developing countries in the world fleet and modification of the market mechanisms with a view to permitting equitable development of the world merchant fleet are urgently needed.

76. International action to achieve the above objectives, as well as support for the efforts of developing countries in the expansion of their national merchant marines, especially in the bulk sector, are necessary in order to implement the Programme of Action on the Establishment of a New International Economic Order, which states, *inter alia*, that "all efforts should be made to promote an increasing and equitable participation of developing countries in the world shipping tonnage".[21] To this end, a comprehensive set of measures is called for, involving:

(1) Recognition of the right of developing countries to an equitable participation in the carriage of bulk cargoes generated by their own trade and agreement on the measures needed for the implementation of that right, including agreement that:

(*a*) Where bulk cargo movements can maintain tankers or bulk carriers in regular employment between a pair of trading countries, the right to participate in the transport should be equitably shared;

(*b*) Contracts for the sale and purchase of bulk cargoes, or for the exploitation of natural resources giving rise to bulk cargoes, should be negotiated (or renegotiated in the case of existing contracts) to include provisions giving the developing country the right to transport an equitable share of cargoes which can keep vessels in regular employment;

(*c*) Developed trading-partner countries that cannot operate national-flag tankers and bulk carriers economically should be urged to yield the major percentage of transport rights to developing trading-partner countries which can operate national-flag vessels economically.

(2) Agreement on the principles relating to the economic elements of the genuine link which must exist between a vessel and its country of registry, including agreement that a vessel should not be considered as having a genuine link with its country of registry unless, *inter alia* :

(*a*) The operation of the vessel makes a substantial contribution to the national economy of the country;

(*b*) Revenues and expenditures, as well as the purchase and sale of the vessel, are treated in the national balance-of-payments accounts;

(*c*) The country has the right to the employment of its nationals;

(*d*) The country has an equitable share in the beneficial ownership.

(3) Measures to prevent the establishment of new open registers, and to phase out flag-of-convenience operations over a period of years, including action:

(*a*) By Governments to restrain their shipowners from registering any additional vessels in instances where a genuine link (including the elements set out above) is lacking;

(*b*) By Governments of countries currently offering open-registry facilities to refrain from accepting any new registrations in instances where a genuine link (including the elements set out above) is lacking, and to gradually increase their demands for participation in beneficial ownership and employment rights with respect to vessels already on their registers.

(4) Action to ensure the availability of finance for the purchase of second-hand vessels and to ease the terms of credit for new vessels, including:

(*a*) Action by developed countries to make development aid finance available for the purchase of second-hand ships, and urging OECD countries to ease the commercial terms of credit for new vessels by increasing loan periods to 12 or 14 years and reducing down-payments to 10 or 20 per cent of the contract price;

(*b*) The establishment of a consultative group to assess, at regular intervals, the financial needs of developing countries and to recommend measures for the mobilization of financial resources.

(5) Building an institutional framework to promote fleet development and strengthen the economic links in maritime transport between the developing countries, *inter alia* through:

[21] General Assembly resolution 3202 (S-VI) of 1 May 1974, sect. I.4 (*a*).

(a) The closer co-operation of shippers in a region or subregion in their efforts to improve the control over bulk cargo movements;

(b) Establishment of regional associations of shipowners and joint shipping and shipyard ventures of developing countries whenever it may assure them greater benefits from ships' operations;

(c) Co-operation in the area of ports on a regional and subregional basis.

(6) Further work by the UNCTAD secretariat:

(a) To identify in greater detail the opportunities which exist on specific trade routes between developing countries and their trading partner countries for transferring bulk operations to the national-flag merchant fleets of the developing countries;

(b) To examine the policies and attitudes of the developed market-economy countries which constitute the main trading partners of developing countries in the bulk trades;

(c) In co-operation with the Centre for Transnational Corporations, to investigate the controls exercised over bulk cargo movements by transnational corporations;

(d) To investigate the possibilities for a greater involvement of developing countries in the workings of the international charter exchanges.

DOCUMENT TD/222/SUPP.2

Statistical annexes

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ANNEX I

Major dry-bulk cargo movements from and to developing countries (based mainly on 1975 data)

(Estimated movements of 100,000 tons or more, from or to developing countries, of the five major bulk commodities—iron ore, coal, grain, bauxite/alumina and phosphate rock)

(In thousands of tons)

Developing country or territory and commodity	*Exports*	*Imports*	*Trading partner*
Algeria			
Iron ore	300		France
	100		Italy
Wheat		281	Canada
		800	United States of America
		209	France
		103	Argentina
Phosphate rock	100		France
	100		Italy
	100		Czechoslovakia
	100		Poland
Total	800	1 393	

ANNEX I (*continued*)

Major dry-bulk cargo movements from and to developing countries (based mainly on 1975 data)

(Estimated movements of 100,000 tons or more, from or to developing countries, of the five major bulk commodities—iron ore, coal, grain, bauxite/alumina and phosphate rock)

(*In thousands of tons*)

Developing country or territory and commodity	*Exports*	*Imports*	*Trading partner*
Angola			
Iron ore	100		United States of America
	1 400		Japan
	200		Belgium/Luxembourg
	400		France
	200		Portugal
	800		United Kingdom
Total	3 100		
Argentina			
Iron ore		1 100	Brazil
Coal		350	Poland
		840	United States of America
Wheat	308		Italy
	103		Algeria
	120		Chile
	131		Libyan Arab Jamahiriya
Sorghum	137		Belgium/Luxembourg
	692		Japan
	100		India
	326		Mexico
Maize	314		Cuba
	916		Mexico
		105	Australia
Total	3 147	2 395	
Bahrain			
Alumina		230	Australia
Total		230	
Bangladesh			
Coal		160	India
Wheat		500	United States of America
		460	Australia
		356	Canada
		392	France
Total		1 868	
Brazil			
Iron ore	700		Canada
	7 600		United States of America
	23 500		Japan
	1 500		Austria
	1 900		Belgium/Luxembourg
	3 500		France
	11 000		Germany, Federal Republic of
	3 100		Italy
	1 600		Netherlands
	1 600		Spain
	2 200		United Kingdom
	300		Yugoslavia
	700		Czechoslovakia
	800		Poland
	1 200		Romania
	1 100		Argentina

ANNEX I *(continued)*

Major dry-bulk cargo movements from and to developing countries (based mainly on 1975 data)

(Estimated movements of 100,000 tons or more, from or to developing countries, of the five major bulk commodities—iron ore, coal, grain, bauxite/alumina and phosphate rock)

(In thousands of tons)

Developing country or territory and commodity	*Exports*	*Imports*	*Trading partner*
Coal		1 820	United States of America
		810	Poland
Wheat		500	Canada
		2 500	United States of America
Maize	170		Italy
	197		Spain
	702		USSR
Phosphate rock		700	United States of America
		600	Morocco
Total	63 369	6 930	
Chile			
Iron ore	900		United States of America
	8 100		Japan
	100		Belgium/Luxembourg
	100		Germany, Federal Republic of
Wheat		400	United States of America
		399	Australia
		120	Argentina
Total	9 200	919	
Colombia			
Iron ore	100		United States of America
Wheat		329	United States of America
Total	100	329	
Cuba			
Wheat		390	Canada
Maize		314	Argentina
Total		704	
Dominican Republic			
Wheat		109	United States of America
Bauxite	949		United States of America
Total	949	109	
Ecuador			
Wheat		202	United States of America
Total		202	
Egypt			
Coal		100	Australia
		200	United States of America
		500	USSR
Wheat		1 002	Australia
		935	United States of America
		550	France
Maize		400	United States of America
Phosphate rock	100		Czechoslovakia
Total	100	3 687	

ANNEX I (*continued*)

Major dry-bulk cargo movements from and to developing countries (based mainly on 1975 data)

(Estimated movements of 100,000 tons or more, from or to developing countries, of the five major bulk commodities—iron ore, coal, grain, bauxite/alumina and phosphate rock)

(In thousands of tons)

Developing country or territory and commodity	*Exports*	*Imports*	*Trading partner*
Ghana			
Bauxite	100		Germany, Federal Republic of
	225		United Kingdom
Alumina		110	Suriname
Total	325	110	
Guinea			
Bauxite	1 865		United States of America
	1 142		Canada
	655		France
	780		Germany, Federal Republic of
	208		Italy
	1 844		USSR
Total	6 494		
Guyana			
Bauxite	821		Canada
	380		United States of America
Total	1 201		
Haiti			
Bauxite	503		United States of America
Total	503		
Hong Kong			
Iron ore	200		Japan
Maize		130	Thailand
Total	200	130	
India			
Iron ore	200		United States of America
	16 800		Japan
	1 000		Germany, Federal Republic of
	400		Czechoslovakia
	200		Hungary
	600		Poland
	2 100		Romania
	600		Republic of Korea
Coal	160		Bangladesh
Wheat		602	Australia
		643	Canada
		743	France
		230	Germany, Federal Republic of
		4 000	United States of America
Sorghum		100	United States of America
		100	Argentina
Phosphate rock		200	United States of America
		100	Jordan
Total	22 060	6 718	

ANNEX I (*continued*)

Major dry-bulk cargo movements from and to developing countries (based mainly on 1975 data)

(Estimated movements of 100,000 tons or more, from or to developing countries, of the five major bulk commodities—iron ore, coal, grain, bauxite/alumina and phosphate rock)

(*In thousands of tons*)

Developing country or territory and commodity	*Exports*	*Imports*	*Trading partner*
Indonesia			
Iron ore	400		Japan
Wheat		359	Australia
		500	United States of America
Bauxite	986		Japan
Total	1 386	859	
Iran			
Wheat		726	United States of America
Phosphate rock		300	United States of America
Total		1 026	
Iraq			
Wheat		204	Australia
		208	Canada
Total		412	
Jamaica			
Maize		117	United States of America
Bauxite	6 343		United States of America
Alumina	707		United States of America
	405		Norway
	339		United Kingdom
	142		USSR
Total	7 936	117	
Jordan			
Phosphate rock	200		Japan
	100		France
	100		Italy
	200		Turkey
	200		Bulgaria
	100		Czechoslovakia
	100		Poland
	200		Romania
	100		India
Total	1 300		
Kuwait			
Wheat		101	Australia
Total		101	
Lebanon			
Wheat		156	Canada
Maize		102	United States of America
Total		258	

ANNEX I (*continued*)

Major dry-bulk cargo movements from and to developing countries (based mainly on 1975 data)

(Estimated movements of 100,000 tons or more, from or to developing countries, of the five major bulk commodities—iron ore, coal, grain, bauxite/alumina and phosphate rock)

(In thousands of tons)

Developing country or territory and commodity	*Exports*	*Imports*	*Trading partner*
Liberia			
Iron ore	2 500		United States of America
	500		Japan
	200		Austria
	900		Belgium/Luxembourg
	2 000		France
	6 200		Germany, Federal Republic of
	2 900		Italy
	1 500		Netherlands
	600		Spain
	500		United Kingdom
Total	17 800		
Libyan Arab Jamahiriya			
Wheat		131	Argentina
Total		131	
Malaysia			
Iron ore	200		Japan
Wheat		311	Australia
Bauxite	590		Japan
Maize		123	Thailand
Total	790	434	
Mauritania			
Iron ore	1 000		Japan
	900		Belgium/Luxembourg
	2 200		France
	600		Germany, Federal Republic of
	1 300		Italy
	300		Netherlands
	600		Spain
	1 600		United Kingdom
Total	8 500		
Mexico			
Phosphate rock		800	Morocco
Sorghum		326	Argentina
Maize		916	Argentina
Total		2 042	
Morocco			
Iron ore	300		Germany, Federal Republic of
Wheat		802	France

ANNEX I (*continued*)

Major dry-bulk cargo movements from and to developing countries (based mainly on 1975 data)

(Estimated movements of 100,000 tons or more, from or to developing countries, of the five major bulk commodities—iron ore, coal, grain, bauxite/alumina and phosphate rock)

(*In thousands of tons*)

Developing country or territory and commodity	*Exports*	*Imports*	*Trading partner*
Phosphate rock	500		Japan
	1 100		Belgium/Luxembourg
	200		Denmark
	1 300		France
	500		Germany, Federal Republic of
	200		Greece
	100		Finland
	1 100		Italy
	100		Ireland
	600		Netherlands
	400		Portugal
	1 400		Spain
	300		Sweden
	400		Turkey
	1 300		United Kingdom
	200		Bulgaria
	200		Czechoslovakia
	100		German Democratic Republic
	1 700		Poland
	700		Romania
	600		Brazil
	800		Mexico
Total	14 100	802	
Mozambique			
Iron ore	200		Japan
Total	200		
Nauru			
Phosphate rock	2 200		Australia/New Zealand
	200		United States of America
	200		Japan
Total	2 600		
Nigeria			
Wheat		378	United States of America
Total		378	
Pakistan			
Wheat		291	Australia
		230	Canada
		157	France
		924	United States of America
Total		1 602	
Peru			
Iron ore	1 600		United States of America
	2 700		Japan
	100		Belgium/Luxembourg
	400		France
	600		Germany, Federal Republic of
	100		Italy
	200		United Kingdom
	300		Republic of Korea

ANNEX I (*continued*)

Major dry-bulk cargo movements from and to developing countries (based mainly on 1975 data)

(Estimated movements of 100,000 tons or more, from or to developing countries, of the five major bulk commodities—iron ore, coal, grain, bauxite/alumina and phosphate rock)

(*In thousands of tons*)

Developing country or territory and commodity	*Exports*	*Imports*	*Trading partner*
Wheat		111	Australia
		664	United States of America
Maize		300	United States of America
Total	6 000	1 075	
Philippines			
Iron ore	100		United States of America
	1 500		Japan
Wheat		114	Canada
		366	United States of America
Phosphate rock		100	United States of America
Total	1 600	580	
Republic of Korea			
Iron ore		600	Australia
		600	India
		300	Peru
Coal		580	Australia
		290	United States of America
Wheat		1 511	United States of America
Maize		354	United States of America
		110	Thailand
Phosphate rock		700	United States of America
Total		5 045	
Saudi Arabia			
Wheat		300	United States of America
Total		300	
Senegal			
Phosphate rock	600		France
	100		Netherlands
	200		Greece
	300		United Kingdom
	100		Finland
	100		Czechoslovakia
	100		Poland
Total	1 500		
Sierra Leone			
Iron ore	1 000		Japan
	600		Germany, Federal Republic of
Bauxite	333		Canada
	311		Germany, Federal Republic of
Total	2 544		

ANNEX I (*continued*)

Major dry-bulk cargo movements from and to developing countries (based mainly on 1975 data)

(Estimated movements of 100,000 tons or more, from or to developing countries, of the five major bulk commodities—iron ore, coal, grain, bauxite/alumina and phosphate rock)

(*In thousands of tons*)

Developing country or territory and commodity	*Exports*	*Imports*	*Trading partner*
Singapore			
Wheat		127	Australia
		354	United States of America
Maize		100	United States of America
		235	Thailand
Total		816	
Sri Lanka			
Wheat		100	Australia
		200	France
Total		300	
Sudan			
Wheat		119	United States of America
Total		119	
Suriname			
Bauxite	104		Canada
	1 952		United States of America
Alumina	442		United States of America
	106		Germany, Federal Republic of
	218		Netherlands
	237		Norway
	110		Ghana
Total	3 069		
Syrian Arab Republic			
Wheat		158	United States of America
Phosphate rock	100		Bulgaria
	100		Czechoslovakia
	100		Poland
	100		Romania
Total	400	158	
Thailand			
Maize	978		Japan
	130		Hong Kong
	123		Malaysia
	235		Singapore
	110		Republic of Korea
Total	1 476		
Togo			
Phosphate rock	900		France
	100		Belgium/Luxembourg
	500		Netherlands
	200		Poland
Total	1 700		

ANNEX I *(concluded)*

Major dry-bulk cargo movements from and to developing countries (based mainly on 1975 data)

(Estimated movements of 100,000 tons or more, from or to developing countries, of the five major bulk commodities—iron ore, coal, grain, bauxite/alumina and phosphate rock)

(In thousands of tons)

Developing country or territory and commodity	*Exports*	*Imports*	*Trading partner*
Trinidad and Tobago			
Wheat		105	United States of America
Total		105	
Tunisia			
Iron ore	200		France
Phosphate rock	500		France
	100		Italy
	100		United Kingdom
	300		Greece
	300		Turkey
	100		Czechoslovakia
	300		Poland
	100		Brazil
Total	2 000		
United Republic of Tanzania			
Wheat		111	United States of America
Maize		176	United States of America
Total		287	
Venezuela			
Iron ore	13 300		United States of America
	400		Belgium/Luxembourg
	500		France
	1 900		Germany, Federal Republic of
	2 100		Italy
	900		Spain
	1 800		United Kingdom
	100		Czechoslovakia
	100		Poland
Wheat		597	United States of America
Sorghum		420	United States of America
Total	21 100	1 017	
GRAND TOTAL	207 549	43 688	

Sources: United Nations, *Commodity Trade Statistics*; UNCTAD data bank; specialized commodity trade intelligence sources.

Notes:

Estimates have been based on the latest complete data in respect of each commodity item. Phosphate rock is the only item in respect of which complete data are available for 1976; the other estimates are based on 1975 data.

The sources listed above relate to total movements, both seaborne and landborne. In order to arrive at estimates of seaborne movements the best available evidence has been used to eliminate landborne movements, but some approximation has been inevitable.

The shipping classifications for three of the items covered can be directly aligned with specific SITC subgroups–namely, iron ore (281.3); coal (321.4); phosphate rock (271.3).

Cargoes of bauxite and alumina cannot be properly identified from trade data reported under SITC 283.3 and 513.65, and for these items industry sources have been used.

The shipping classification of "grain" is normally taken as covering wheat (including meslin) (SITC 041 and 046); maize (044); barley (043); rye (045.1); oats (045.2); soya beans (221.4) and sorghum. Sorghum is understood to comprise the major portion of SITC item 045.9 ("cereals unmilled n.e.s.") and for the purposes of this estimate this item has been taken as equivalent to "sorghum". Grain movements of 100,000 tons or more from or to developing countries appear to be confined to movements of wheat, maize and sorghum, and consequently no figures are recorded for barley, rye, oats or soya beans.

ANNEX II

Estimated seaborne imports of crude petroleum by developing countries, 1975

(Thousands of tons)

Developing country or territory		*Volume*	*Trading partner*
Antigua		40	Trinidad
		120	Venezuela
	Total	160	
Argentina		1 370	Libyan Arab Jamahiriya
		750	Unknown
	Total	2 120	
Bahamas		290	North America
		400	Gabon
		3 480	Libyan Arab Jamahiriya
		2 800	Nigeria
		300	Iran
		5 000	Saudi Arabia
		900	Unknown
	Total	13 170	
Bangladesh		300	Iran
		300	United Arab Emirates
	Total	600	
Barbados		150	Trinidad and Tobago
	Total	150	
Brazil		760	Algeria
		2 110	Libyan Arab Jamahiriya
		180	Egypt
		920	Venezuela
		1 800	Iran
		8 290	Iraq
		5 180	Kuwait
		2 330	Oman
		350	Qatar
		11 150	Saudi Arabia
		750	United Arab Emirates
		250	USSR
		150	Unknown
	Total	34 220	
Burma		200	Brunei
	Total	200	
Chile		720	Ecuador
		380	Venezuela
		1 220	Iran
		210	Saudi Arabia
		860	United Arab Emirates
		140	Unknown
	Total	3 530	
Costa Rica		290	Venezuela
	Total	290	
Cuba		5 550	USSR
	Total	5 550	
Cyprus		290	Saudi Arabia
	Total	290	
Democratic Yemen		910	Iraq
		290	Kuwait
	Total	1 200	
Dominican Republic		1250	Venezuela
	Total	1250	
Egypt		520	Iran
		130	Iraq
		1 430	Saudi Arabia
	Total	2 080	
El Salvador		610	Unknown
	Total	610	
Ethiopia		350	Iran
		250	Iraq
	Total	600	
Ghana		460	Libyan Arab Jamahiriya
		610	Nigeria
		120	Iraq
		110	USSR
	Total	1 300	
Guam		500	Qatar
		560	Saudi Arabia
		90	Sarawak
	Total	1 150	
Guatemala		600	Venezuela
		370	Unknown
	Total	970	
Honduras		660	Venezuela
	Total	660	
India		6 500	Iran
		2 000	Iraq
		4 040	Saudi Arabia
		980	USSR
		30	Unknown
	Total	13 550	
Ivory Coast		140	Angola
		530	Nigeria
		580	Iraq
		130	Unknown
	Total	1 380	
Jamaica		1 400	Venezuela
	Total	1 400	

ANNEX II (*continued*)

Estimated seaborne imports of crude petroleum by developing countries, 1975

(Thousands of tons)

Developing country or territory		*Volume*	*Trading partner*
Jordan		870	Saudi Arabia
	Total	870	
Kenya		1 640	Iran
		880	Saudi Arabia
		310	United Arab Emirates
	Total	2 830	
Lebanon		1 440	Iraq
		710	Saudi Arabia
	Total	2 150	
Liberia		570	Saudi Arabia
	Total	570	
Madagascar		600	Qatar
		150	Saudi Arabia
	Total	750	
Malaysia		750	Kuwait
		1 250	Saudi Arabia
		1 050	Far East
	Total	3 050	
Martinique		240	Venezuela
		150	Unknown
	Total	390	
Morocco		100	Algeria
		90	Iran
		660	Iraq
		1 310	Saudi Arabia
		460	Unknown
	Total	2 620	
Mozambique		100	Iran
		710	Iraq
	Total	810	
Netherland Antilles		1 140	Gabon
		2 160	Nigeria
		19 230	Venezuela
		560	Oman
		2 400	Saudi Arabia
		1 950	Unknown
	Total	27 440	
Nicaragua		650	Venezuela
	Total	650	
Pakistan		3 200	Iran
	Total	3 200	
Panama		1 570	Ecuador
		860	Venezuela
		1 660	Saudi Arabia
		50	Unknown
	Total	4 140	
Paraguay		205	Unknown
	Total	205	
Peru		1 600	Ecuador
		770	Venezuela
		30	Unknown
	Total	2 400	
Philippines		500	Iraq
		1 830	Kuwait
		4 660	Saudi Arabia
		760	Indonesia
		500	China
		550	Unknown
	Total	8 800	
Republic of Korea		1 000	Iran
		8 020	Kuwait
		6 190	Saudi Arabia
	Total	15 210	
Senegal		250	Nigeria
		300	Iraq
		150	Unknown
	Total	700	
Sierra Leone		210	Nigeria
		100	Gabon
	Total	310	
Singapore		3 450	Iran
		1 250	Iraq
		7 290	Kuwait
		1 010	Oman
		2 120	Saudi Arabia
		930	United Arab Emirates
		770	Unknown
	Total	16 820	
Sri Lanka		1 850	Iran
	Total	1 850	
Sudan		400	Iran
		750	Iraq
	Total	1 150	
Syrian Arab Republic		2 410	Iraq
	Total	2 410	

ANNEX II *(concluded)*

Estimated seaborne imports of crude petroleum by developing countries, 1975

(Thousands of tons)

Developing country or territory	*Volume*	*Trading partner*
Thailand	500	Iraq
	1 000	Kuwait
	1 340	Qatar
	2 080	Saudi Arabia
	310	China
	560	Unknown
Total	5 790	
Trinidad and Tobago	60	Angola
	80	Nigeria
	50	Venezuela
	810	Iran
	4 340	Saudi Arabia
	2 560	Indonesia
Total	7 900	
Tunisia	680	Iraq
	330	Saudi Arabia
Total	1 010	
United Republic of Tanzania	520	Iran
	210	Saudi Arabia
Total	730	
Uruguay	180	Libyan Arab Jamahiriya
	200	Venezuela
	520	Iran
	1 010	Kuwait
Total	1 910	
Zaire	170	Algeria
	290	Libyan Arab Jamahiriya
	160	Iraq
Total	620	
Zambia	840	Iran
Total	840	
GRAND TOTAL	204 555	

Source : United Nations, *World Energy Supplies 1971-1975* (United Nations publication, Sales No. E.77.XVII.4) and additional information made available by the Statistical Office of the United Nations.

Note : The data in the original sources relate to total movements, both seaborne and landborne. In order to arrive at estimates of seaborne movements, the best available evidence has been used to eliminate landborne movements, but some approximation has been inevitable. Imports by the 14 main oil-producing countries and by Bahrain have been excluded from this tabulation.

ANNEX III

Exports of petroleum products by developing countries, 1976

(Thousands of tons)

Developing country or territory	*Exports*
I. *14 major oil producers plus Bahrain*	
Algeria	1 697
Ecuador	–
Gabon	448
Indonesia	660
Iran	6 470
Iraq	734
Kuwait	12 710
Libyan Arab Jamahiriya	869
Nigeria	340
Oman	–
Qatar	150
Saudi Arabia	11 041
United Arab Emirates	–
Venezuela	37 606
Bahrain	8 623
Total	81 348
II. *Countries and territories exporting more than 1 million tons*	
Bahamas	7 082
Colombia	1 324
Democratic Yemen	1 205
Egypt	1 053
Netherlands Antilles	27 768
Singapore	11 641
Trinidad and Tobago	13 204
United States Virgin Islands	22 949
Total	86 226
III *Other exporters*	
Africa	
Angola	52
Benin	13
Ethiopia	237
Gambia	3
Ghana	335
Ivory Coast	151
Kenya	985
Liberia	1
Madagascar	149
Malawi	6
Morocco	25
Mozambique	30
Senegal	141
Sierra Leone	1
Tunisia	22

ANNEX III (*continued*)

Exports of petroleum products by developing countries, 1976

(*Thousands of tons*)

Developing country or territory	*Exports*	*Developing country or territory*	*Exports*
Uganda	6	Panama Canal Zone	32
United Republic of Tanzania	13	Peru	206
Zaire	200		
		Asia and the Pacific	
		Bangladesh	5
America		Brunei	3
Argentina	113	Fiji	45
Barbados	2	Guam	30
Bolivia	225	Hong Kong	94
Brazil	219	Indonesia	660
Chile	98	Malaysia	419
El Salvador	7	Pakistan	275
Guadeloupe	4	Philippines	101
Honduras	16	Republic of Korea	871
Jamaica	32	Sri Lanka	92
Martinique	223	Syrian Arab Republic	377
Mexico	170	Thailand	37
Nicaragua	4		
Panama	642	Total	7 372

Source: United Nations, *World Energy Supplies 1972-1976* (United Nations publication, Sales No. E.78.XVII.7).

ANNEX IV

Imports of petroleum products by developing countries, 1976

(*Thousands of tons*)

Developing country or territory	*Imports*	*Developing country or territory*	*Imports*
I. *14 major oil producers plus Bahrain*		III. *Countries and territories importing between 200,000 and 1,000,000 tons*	
Algeria	749		
Ecuador	192	*Africa*	
Gabon	303	Guinea	272
Indonesia	2 991	Mauritius	318
Iran	–	Morocco	329
Iraq	–	Reunion	210
Kuwait	1	Senegal	865
Libyan Arab Jamahiriya	972	Southern Rhodesia	572
Nigeria	636	Sudan	585
Oman	1 188	Tunisia	432
Qatar	26	Uganda	339
Saudi Arabia	70	United Republic of Cameroon	335
United Arab Emirates	966	Zaire	504
Venezuela	–		
Bahrain	1	*America*	
	8 095	Antigua	216
II. *Countries and territories importing more than 1 million tons*		Argentina	877
		Bahamas	889
Brazil	1 176	Colombia	312
Cuba	1 870	Costa Rica	367
Hong Kong	5 533	Dominican Republic	753
India	2 109	Guatemala	416
Jamaica	1 449	Guyana	565
Malaysia	1 501	Panama	376
Mexico	2 865	Peru	384
Netherlands Antilles	3 615	Suriname	585
Panama Canal Zone	3 157	United States Virgin Islands	248
Singapore	6 210		
Syrian Arab Republic	1 369	*Asia and the Pacific*	
Thailand	1 037	Afghanistan	340
		Cyprus	276
	31 891	Democratic Yemen	320

ANNEX IV (*continued*)

Imports of petroleum products by developing countries, 1976

(*Thousands of tons*)

Developing country or territory	*Imports*
Fiji	291
Guam	457
Lebanon	212
New Caledonia	645
Pakistan	740
Papua New Guinea	539
Philippines	753
Wake Island	346
Yemen	240
Total	15 908
IV. *Other importing developing countries and territories*	
Africa	
Angola	176
Benin	116
Burundi	24
Cape Verde	122
Central African Empire	43
Chad	78
Comoros	12
Congo	116
Equatorial Guinea	20
Ethiopia	46
Gambia	32
Guinea-Bissau	20
Ivory Coast	6
Kenya	98
Liberia	16
Madagascar	27
Malawi	138
Mali	105
Mauritania	103
Mozambique	180
Niger	107
Rwanda	34
Sao Tome and Principe	7
Seychelles	42
Sierra Leone	26
Somalia	99
Togo	116
United Republic of Tanzania	169
America	
Barbados	148
Belize	63
British Virgin Islands	8
Cayman Islands	23
Dominica	9
El Salvador	7
Falkland Islands (Malvinas)	2
French Guiana	87
Grenada	13
Guadeloupe	162
Haiti	126
Honduras	21
Martinique	1
Nicaragua	60
Paraguay	81
St. Kitts-Nevis-Anguilla	12
St. Lucia	26
St. Vincent	12
Trinidad and Tobago	91
Asia and the Pacific	
American Samoa	35
Bangladesh	113
Brunei	11
Christmas Island	41
Cook Islands	6
Democratic Kampuchea	85
East Timor	7
French Polynesia	151
Gilbert Islands	15
Lao People's Democratic Republic	124
Macau	68
Nauru	42
Nepal	72
New Hebrides	36
Pacific Islands	71
Republic of Korea	42
Samoa	15
Solomon Islands	38
Sri Lanka	10
Total	4 012

Source: United Nations, *World Energy Supplies 1972-1976* (United Nations publication, Sales No. E.78.XVII.7).

DOCUMENT TD/222/SUPP.1

Beneficial ownership of open-registry fleets

Report by the UNCTAD secretariat

[*Original: English*]
[*19 December 1978*]

CONTENTS

TABLES

Introduction

(i) This report has been prepared in response to the resolution adopted by the *Ad hoc* Intergovernmental Working Group on the Economic Consequences of the Existence of Lack of a Genuine Link between Vessel and Flag of Registry at its meeting in February 1978, which states that further work needs to be undertaken within UNCTAD to investigate the beneficial ownership of open-registry fleets.[1]

(ii) The deliberations of the Working Group were based largely upon consideration of a report prepared by the UNCTAD secretariat[2] in which seven countries or territories were treated as "open-registry countries", namely the Bahamas, Bermuda, Cyprus, Liberia, Panama, Singapore and Somalia.[3] Since that report was issued, information has been published to the effect that Somalia has ceased to offer open-registry facilities, but the UNCTAD secretariat had not, as of the end of September 1978, received any official confirmation from the Government of Somalia in response to its inquiry. Nevertheless, the secretariat has proceeded on the assumption that Somalia should no longer be treated as an open-registry country.

(iii) In investigating the beneficial ownership of the open-registry fleets the secretariat commenced its investigations by making direct inquiries of those Governments which it believed might be able to provide useful information. A summary of the information received is contained in section I.

(iv) At an early stage it became apparent that the information obtainable from Governments would be incomplete and that some supplementary investigation would be needed. The secretariat therefore commissioned a computer search and analysis of the data contained in classification society registers and commercial directories issued throughout the world, the results of which are summarized in section II.

I. *Information obtained from Governments*

1. At the session of the *Ad Hoc* Intergovernmental Working Group the spokesman for Group D countries stated that no vessels of socialist countries of Eastern Europe were registered in open-registry countries.[4]

2. Following the adoption of the resolution by the *Ad Hoc* Intergovernmental Working Group the Secretary-General of UNCTAD addressed a note to the Governments of 23 States members of UNCTAD[5] requesting them to advise him whether or not vessels operating under flags of open-registry countries were beneficially owned by nationals or residents of their countries and if so, to what extent, in terms of the number of vessels, the types of

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[1] See the report of the *Ad hoc* Intergovernmental Working Group on the Economic Consequences of the Existence or Lack of a Genuine Link between Vessel and Flag of Registry (TD/B/C.4/177), annex, para. 1 (*c*) (i).

[2] "Economic consequences of the existence or lack of a genuine link between vessel and flag of registry: report by the UNCTAD secretariat" (TD/B/C.4/168 and Corr.1 and Add.1).

[3] See, however, paragraph 11 below with respect to vessels registered in Hong Kong.

[4] TD/B/C.4/177, para. 34.

[5] Australia, Austria, Belgium, Canada, Denmark, Finland, Greece, Holy See, Iceland, Ireland, Israel, Italy, Liechtenstein, Luxembourg, Monaco, New Zealand, Portugal, San Marino, South Africa, Spain, Switzerland, Turkey, Yugoslavia.

vessels, the tonnages (grt and dwt) and the actual countries of registration. Simultaneously, the UNCTAD secretariat requested information from the Governments of China, France, the Federal Republic of Germany, Japan, Netherlands, Norway, Sweden, the United Kingdom and the United States of America, most of which had already supplied a certain amount of information in response to inquiries made in connexion with the preparation of the earlier UNCTAD report.[6]

3. The responses to these inquiries can be summarized as follows:

(*a*) Seven Governments stated that their countries were involved in the beneficial ownership of vessels flying the flags of open-registry countries and gave full or partial details of their involvement: France, Federal Republic of Germany, Greece, Netherlands, Norway, Sweden and United States. Data supplied by these countries are shown in table 1.

(*b*) Two more Governments (Canada and Japan) advised that their countries were involved in the beneficial ownership of vessels registered in other countries, but they were unable to provide data on the extent of their involvement. Canada stated that it was aware of data in *Lloyd's Register of Shipping* indicating Canadian ownership or management of vessels registered in other countries, principally the Bahamas and Bermuda, but that it had no supplementary data. Japan acknowledged that a number of the "tie-in" vessels operated by Japanese shipping companies were owned by overseas subsidiaries of Japanese shipping companies but stated that the Japanese Government, "not being in a position to control the activities of shipping companies under foreign legislations, since the Japanese Maritime Transportation Law has no provisions relating to them, does not hold complete data of the number of such subsidiaries nor the number and the gross tonnage of ships owned by them".

(*c*) The Governments of five other countries stated that their countries were not involved in the beneficial ownership of open-registry vessels: Belgium, China, Finland,

[6] TD/B/C.4/168 and Corr.1 and Add.1.

TABLE 1

Beneficial ownership of open-registry fleets reported by home countries

(*Number of vessels and dwt*)

A = Number of vessels B = Thousands of dwt

Country (and date of reference)	*Bahamas*		*Bermuda*		*Cyprus*		*Liberia*		*Panama*		*Singapore*		*Total*	
	A	*B*	*A*	*B*	*A*	*B*	*A*	*B*	*A*	*B*	*A*	*B*	*A*	*B*
France (1 Apr. 1977)[a]	–		–		5	33	12	428	9	126	–		26	587
Germany, Fed. Rep. of (1 Jan. 1978)[b]	–		–		28	154	39	1 869	47	550	108	1 699	222	4 272
Greece (31 Mar. 1978)[c]	..		..		..		..		..		..		951	29 154
Netherlands (30 June 1977)[d]	–		–		3	3	21	1 197	48	158	2	5	74	1 362
Norway (1 Jan. 1978)[e]	..		..		..		14	..	4	..	14	..	36	1 224
Sweden (April 1978)[f]	–		–		–		4	73	5	..	–		9	73
United States of America (31 Jan. 1976)[g] . .	–		–		1	3	374	43 224	86	5 290	–		401	48 517
Total identified fleet[h]	–		–		37	192	464	46 791	199	6 124	124	1 704	1 779	85 190
Total fleet (1 July 1977)[i]	109	147	88	3 040	800	4 015	2 617	155 951	3 267	31 593	872	11 351	7 753	206 099

[a] Vessels under flags of convenience controlled by French shipowners.

[b] Ocean vessels operated under foreign flags, including 41 vessels under Panamanian flag on bareboat charter (493,691 dwt).

[c] Ships beneficially owned by Greek nationals but registered under flags of open-registry countries and contracted with the Greek Seamen's Pension Fund (NAT). No data are available on ships beneficially owned by Greek nationals under flags of open-registry countries and not contracted with NAT, but the number of such ships is believed by the Greek Government to be small.

[d] Dutch ships under flags of convenience. The Government has stated that the completeness of this information cannot be guaranteed.

[e] Vessels with Norwegian participation under flags of convenience; of the total tonnage of 1,224,000 dwt, Norwegian participation accounted for 539,000 dwt.

[f] Vessels with more than 50 per cent Swedish ownership operating under open-registry flags. These data exclude two bulk carriers (135,000 dwt) which are half-owned by a Swedish shipowner and half by the Liberian Government and which the Swedish Government does not regard as being registered under a flag of convenience in the ordinary way.

[g] Foreign flag merchant ships owned by United States parent companies and registered under flags of open-registry countries. Excluded are ships owned by United States citizens or foreign companies not owned by a company located in and incorporated in the United States.

[h] Totals for each open-registry country, as well as for Sweden, are incomplete.

[i] Source, *Review of maritime transport, 1977* (United Nations publication, Sales No. E.79.II.D.7). The total figures in this table are not comparable with those in table 2 on account of different dates, cut-off points, and countries.

Turkey and Yugoslavia. China added that its trade was partly carried by vessels chartered on a long-term basis.

(*d*) The Governments of a further five countries stated that to the best of their knowledge their countries were not involved, or that they did not possess information indicating involvement: Australia, Liechtenstein, Luxembourg, New Zealand and Spain.

(*e*) The Governments of a further seven countries stated that they were not in possession of the necessary information to state whether or not, or to what extent, their nationals or residents were involved: Austria, Denmark, Ireland, Israel, Monaco, Switzerland and United Kingdom. Switzerland advised that no Swiss private companies which had ships in the register of Swiss ships owned vessels flying flags of open-registry countries but that available information did not permit the Swiss authorities to establish whether other nationals or residents of Switzerland were beneficial owners of vessels under flags of open-registry countries. The United Kingdom advised that, as its own statistics were limited to registration in the United Kingdom and dependent territories, there was no way of obtaining the information required except by consultation with the shipping industry: the Government stated that consultations were in progress and that it would advise the secretariat of the results. Further details have not yet been received. Israel advised that the authorities had technical problems in collecting the necessary data but were continuing their inquiry.

(*f*) The Holy See indicated that it had no information to furnish on this subject.

(*g*) Italy stated that the policy followed by the Italian Government had always been strictly opposed to the registration of vessels owned by Italian nationals or residents in open-registry countries, but did not furnish any information on the extent to which this policy is being observed.

(*h*) Four countries failed to respond to the inquiries of the secretariat: Iceland, Portugal, San Marino and South Africa.

4. Apart from the inquiries mentioned above, the UNCTAD secretariat also wrote to the Governments of the Bahamas, Bermuda, Cyprus, Liberia, Panama and Singapore asking whether they would be prepared to assist the secretariat in making further inquiries into the beneficial ownership of the open-registry fleets, having regard to the resolution unanimously adopted by the *Ad Hoc* Intergovernmental Working Group.

5. In response to these latter inquiries the Government of Bermuda replied that it would be glad to receive a visit from an official of the secretariat to discuss the matter, and that it "welcomes the opportunity to assure the UNCTAD secretariat that Bermuda is not operating an 'open-register'."[7] The Government of the Bahamas replied that it was not in a position to assist the secretariat in its inquiries, but added: "The Bahamas has been operating as an open-registry country for a little over a year. All Bahamian ships, however, are presently owned by a majority of Bahamian nationals and the remainder by Commonwealth nationals; as such, they continue, all, to meet fully the former closed-registry requirements for ships to be registered in the Bahamas. In other words, although our register is now open to non-Commonwealth nationals, no foreigners have yet taken advantage of our facilities to register their vessels here." An interim reply was received from the Government of Cyprus, but no replies have been received from the Governments of Liberia, Panama or Singapore.

6. Thus, the net result of the secretariat's inquiries among Governments has been to identify the ownership of some 1,779 vessels of 85 million dwt, which would amount to only 41 per cent of the total tonnage of the open-registry fleets as at mid 1977. In terms of individual flags, the Government responses identified ownership of 5 per cent of the dwt tonnage of the Cypriot fleet, 30 per cent of the Liberian fleet, 19 per cent of the Panamanian fleet, and 15 per cent of the Singaporean fleet.

II. *Computer analysis of classification registers and commercial directories*[8]

7. A computer search was undertaken of data contained in the registers of classification societies and commercial directories in order to trace the ownership of vessels beyond the nominal owners recorded in the registers of open-registry countries. As in the case of the secretariat's inquiries, the aim has been to identify the beneficial owners, i.e. those who gain the pecuniary benefits from the shipping operations. However, certain of the commercial directories trace ownership only back to the first company of substance (as distinct from "paper companies" in the chain of ownership) which could be held responsible in operational matters, such companies being referred to as the "true managers" (as distinct from the nominal managers of "paper companies"). Consequently, in undertaking an investigation from these sources it has been appropriate to attempt a double identification of "true managers" as well as of beneficial owners.

8. For the purpose of this investigation the "true manager" of a vessel has been defined as the person, company or organization responsible for day-to-day husbandry of the ship concerned. The data on "true managers" should be interpreted primarily as relating to the control exercised over open-registry operations.

9. The true country of a vessel has been assumed to be the country of domicile of the true manager. In some cases it has been difficult to identify the manager's country of domicile. A Greek shipowner might, for example, charter his vessels in London, handle their operations and maintenance programme from New York, and crew the ships from Greece. Similarly, another ship might be crewed from the Philippines, operated from Hong Kong and chartered from Japan. In such instances the country or territory from which the operation and maintenance of vessels are carried out (in these instances the United States and Hong Kong) has been taken as the true country or territory or management. To cover the special case of Greek operations, data have been tabulated in such a way as to facilitate a

[7] It was not impossible to arrange a visit before completion of the present report, but it is hoped that an official of the secretariat will be able to visit Bermuda in the near future.

[8] This section is based on data prepared for the UNCTAD secretariat by A. and P. Appledore (London) Ltd.

separate identification of vessels whose management and ownership have been attributed to United Kingdom-based and to United-States-based Greek shipowning entities.

10. The "true manager" of a vessel may also be its "beneficial owner", but in many instances the registers and directories indicate that the beneficial owner is a different person, company or organization. In such cases the beneficial owner indicated has been taken as the beneficial owner for the purposes of this report, and his or its domicile has been taken as the country of beneficial ownership. In the absence of any evidence indicating a difference between true and beneficial ownership, the true manager has been assumed to be the beneficial owner also, but as the evidence of this nature is understood to be incomplete, it is likely that the number of cases where true management and beneficial ownership differ is somewhat higher than shown in this report.

11. It had been intended to confine this investigation to the ownership of vessels registered under the flags of the six open-registry countries which were used as the basis of the secretariat's inquiries to Governments, namely the Bahamas, Bermuda, Cyprus, Liberia, Panama and Singapore. However, in view of the high percentage of true management and beneficial ownership of vessels under the flags of these countries traceable to Hong Kong, it was considered desirable to extend the investigation to cover vessels registered in Hong Kong. This extended coverage needs to be taken into account when comparing information received from Governments with information received in the course of the present investigation.

12. The result of the investigation has been to identify the true management and beneficial ownership of 98 per cent of the deadweight tonnage registered under flags of convenience. Ownership of the open-registry fleets appears to be concentrated in the hands of three countries and one territory—Greece, Hong Kong, Japan and the United States—which are true managers of 62 per cent of the total deadweight tonnage and which are beneficial owners of no less than 78 per cent. Twelve more countries are true managers of 22 per cent of the tonnage and beneficial owners of 16 per cent. The remaining countries are beneficial owners of insignificant percentages of the total.

13. Table 2 summarizes the data on home countries which beneficially own significant percentages of the open-registry fleets. It should be borne in mind, however, that data taken from such a mixture of sources cannot be expected to be accurate with respect to each and every detail: rather, the data should be accepted as providing an over-all estimate of the situation. Second, it is possible that some countries purchasing open-registry vessels for transfer to their own flags may have been recorded as beneficial owners before completing transfer operations. Third, as noted above, the data also cover vessels registered in Hong Kong and hence are not fully comparable with the data received from Governments. Fourth, where evidence on beneficial ownership was lacking, the true manager was assumed to be the beneficial owner, with a probable understatement of the difference between true management and beneficial ownership.

14. Even if all the above factors are taken into consideration, there would appear to be no doubt as to the extremely high degree of concentration both of the beneficial ownership of open-registry vessels and of the control of open-registry operations as indicated by true management. It is also apparent that there are some significant variations in the patterns of differences between

TABLE 2

True managers and beneficial owners of open registry fleets, 1978

Home country or territory	*True managers (thousands of dwt)*	*Percentage of total dwt*	*Beneficial owners (thousands of dwt)*	*Percentage of total dwt*
United States of America . . .	57 579	29.2	62 376	31.7
Greece	25 822	13.1	40 666	20.7
Hong Kong.	20 581	10.5	33 304	16.9
Japan	18 728	9.5	18 105	9.2
Germany, Federal Republic of	5 246	2.7	5 461	2.8
Unspecified	3 313	1.7	3 523	1.8
Italy	2 337	1.2	3 195	1.6
Switzerland	2 468	1.2	3 089	1.6
Singapore	3 104	1.6	2 740	1.4
Canada	1 950	1.0	2 699	1.4
Israel	2 109	1.1	2 523	1.3
United Kingdom	12 316	6.3	2 284	1.2
Norway.	2 001	1.0	2 010	1.0
Netherlands	809	0.4	1 201	0.6
Monaco.	7 158	3.6	1 052	0.5
Republic of Korea	1 049	0.5	1 049	0.5
Countries and entities, each beneficially owning less than 0.5 per cent	26 592[a]	13.4	7 887	4.0
Unidentified.	3 667	2.0	3 665	1.9
WORLD TOTAL	196 829	100.0	196 829	100.0

[a] This figure is mainly attributable to Bermuda (12 million dwt), United Kingdom-based Greek shipowners (8 million dwt) and United States-based Greek shipowners (1 million dwt), none of which are involved in beneficial ownership to any significant extent (owning respectively 10,000 dwt, 201,000 dwt and 444,000 dwt).

beneficial ownership and true management. Some countries, such as Japan and the Federal Republic of Germany, would appear to be equally involved in the management and ownership of open-registry vessels; others, such as the United States, Greece, Hong Kong, Italy and Switzerland, would appear to be much more involved as beneficial owners than as managers; others, such as the United Kingdom, Monaco and Singapore, appear to be much more heavily involved in management than in ownership. A considerable amount of open-registry tonnage is controlled by shipowners who themselves are relatively insignificant beneficial owners, notably by Bermuda and London-based Greek shipowners.

III. *Conclusions*

15. It is apparent that the Governments of the home countries generally lack complete knowledge of the involvement of their nationals and residents in open-registry operations. Of the nine countries which stated that they were involved in the beneficial ownership of open-registry vessels, two indicated that they had no data, while a further five stated, explicitly or implicitly, that the data they supplied was only partial. Of the seven countries which stated that they had no data on their involvement, five would appear to be substantially involved, even making allowances for possible inaccuracies in the data compiled from unofficial sources.

16. Thus, apart from throwing light on the ownership and commercial control of the open-registry fleets, the data obtained for the preparation of this report have confirmed the validity of claims which were made in the *Ad hoc* Intergovernmental Working Group to the effect that the open-registry fleets were operating without effective government control or regulation, since without the necessary knowledge Governments are not able to exercise control.

DOCUMENT TD/222/SUPP.3

The maritime transport of hydrocarbons

Report by the UNCTAD secretariat

[*Original: English*]
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CONTENTS

TABLES

Introduction

(i) This report was prepared in response to requests made at the eighth session of the Committee on Shipping.[1] It also serves to provide useful background material in connexion with the report entitled "Merchant fleet development"[2] which has been prepared by the secretariat for consideration under agenda item 14 (*b*).

(ii) The factual material in this report has been based on a study undertaken for the secretariat by Fearnley Consultants A.S., Oslo, who used in turn data produced by an affiliated company, Fearnley and Egers Chartering Co. Ltd., also of Oslo. Except where otherwise stated, these two companies are the sources for data used in this report.

(iii) Lack of comprehensive statistics has necessitated using figures from several sources. Discrepancies exist between the data from different sources, which in most instances cannot be reconciled. Nevertheless, the statistical sources are sufficiently consistent for the present purpose of presenting a global view of the transport of hydrocarbons.

CHAPTER I

World trade in hydrocarbons

General observations

1. The term "hydrocarbons" covers four main commodity groups, as follows:

Commodity group	*Tonnage carried by sea in international trade, 1976 (millions of tons)*
Crude oil	1 418
Oil products	260
Liquefied petroleum gas (LPG)	12
Liquefied natural gas (LNG)	12

2. For the purpose of this study crude oil has been taken as including semi-processed feedstocks. Oil products cover 11 subgroups, the relative importance of which is indicated by the quantities of each imported by OECD countries in 1976:

Subgroup	*Imports (millions of tons)*
Residual fuel oil	112.9
Gas diesel oil	59.0
Naphthas	22.3
Motor gasoline	17.4
Aviation fuels	9.3
Lubricants	2.7
Bitumen	2.5
Kerosenes	1.5
White spirit + SBP solvents	0.7
Paraffin waxes	0.4
Other products	1.5

Although petroleum coke is treated as an oil product in some statistical series, it has been excluded from the commodity group for the purposes of this study, since shipments are generally made by dry cargo vessels.

3. Both LPG and LNG are shipped in compressed, liquefied form. LPG commonly consists of propane, butane or propane/butane mixtures. LNG consists of methane and impurities, mainly ethanes.

4. The classification of countries in the study follows broadly, within the limits of the statistics, the groupings used by the UNCTAD secretariat in its annual reviews of maritime transport. Where distinguished separately, the Caribbean generally includes Colombia and Venezuela; in other cases, the Caribbean area is combined with Central and South America under the heading Latin America. Data for developing countries as a whole have been divided into subtotals for oil-exporting and other developing countries. The oil-exporting countries comprise:

(*a*) Middle East: Iran, Iraq, Kuwait, Oman, Qatar, Saudi Arabia, United Arab Emirates;

(*b*) Asia: Indonesia;

(*c*) Africa: Algeria, Gabon, Libyan Arab Jamahiriya, Nigeria;

(*d*) Latin America: Ecuador, Venezuela.

Certain other developing countries also export oil, but in relatively insignificant quantities, and they are consequently treated as basically importing countries.

5. Table 1 shows the development of international seaborne trade in crude oil and oil products during the period 1966-1976, indicating a steep rise in shipments of crude oil over the period, compared with a modest rise in the shipment of oil products. Oil products accounted for only 15 per cent of the total tonnage of oil shipped in 1976, compared with 24 per cent in 1966. Measured in ton-miles, the share of oil products in total oil shipments declined from 21 per cent to 8 per cent over the same period. These figures reflect a growing tendency on the part

[1] See the report of the Committee on Shipping on its eighth session (*Official Records of the Trade and Development Board, Seventeenth Session, Supplement No. 3* (TD/B/648)), par. 61.

[2] See document TD/222 and Supp. 2, reproduced in the present volume.

TABLE 1

World seaborne oil trade, 1966-1976

	Crude oil	Oil products	Crude oil	Oil products
	Millions of tons		*Billions of ton-miles*	
1966 .	607	195	2 629	700
1967 .	672	193	3 400	730
1968 .	768	207	4 197	750
1969 .	871	209	4 853	760
1970 .	995	245	5 597	890
1971 .	1 068	247	6 554	900
1972 .	1 184	261	7 719	930
1973 .	1 365	274	9 206	1 010
1974 .	1 360	264	9 660	960
1975 .	1 259	233	8 882	845
1976 .	1 418	260	10 229	950

of importing countries to refine the oil which they consume.

6. It is not possible to illustrate trends in the transport of the other main commodity groups (LPG and LNG) in the same manner because the development of their maritime transport has been too recent. The world-wide pattern of seaborne movements is discussed separately for each of the four commodity groups.

Crude oil

7. Table 2 shows the world pattern of seaborne movements in 1976 in tonnage terms, while table 3 shows the percentage distribution of this trade between the four main groupings of countries distinguished in table 2.

8. The Middle East is the dominant exporting area, accounting for two thirds of the tonnage exported in 1976, while Western Europe, the United States of America and Japan are the dominant importers, accounting for 80 per cent of the total tonnage imported.

9. Table 4 shows the percentage distribution of seaborne trade in crude oil. From an analysis of more detailed data, it appears that in terms of ton-miles developing countries accounted in 1976 for 98 per cent of the tanker demand for exports; socialist countries accounted for about 2 per cent in that year and developed market-economy countries for virtually nil. On the import side, in 1976 Western Europe, the United States and Japan together accounted for 85 per cent of the demand; other developed market-economy countries accounted for 4 per cent, socialist countries for 2 per cent and developing countries for 9 per cent.

Oil products

10. Table 5 shows the general world pattern of seaborne movements of oil products in 1976.

TABLE 2. **World seaborne**

(Millions

From \ To	Developed market-economy countries: Total	Europe	North America	Japan	Other	Socialist countries: Total	Eastern Europe	Asia
Developed market-economy countries	24.9	21.1	3.5	0.1	0.2	–	–	–
Of which:								
Europe	24.6	21.1	3.5	–	–	–	–	–
North America	–	–	–	–	–	–	–	–
Japan	–	–	–	–	–	–	–	–
Other	0.3	–	–	0.1	0.2	–	–	–
Socialist countries.	31.4	25.0	0.3	6.1	–	0.3	0.3	–
Of which:								
Eastern Europe	25.4	25.0	0.3	0.1	–	–	–	–
Asia.	6.0	–	–	6.0	–	0.3	0.3	–
Oil-exporting developing countries	1 114.8	573.6	297.2	212.7	31.3	18.3	18.3	–
Of which:								
Middle East	790.1	448.4	130.2	181.8	29.7	14.0	14.0	–
Indonesia.	54.5	0.3	26.5	27.6	0.1	–	–	–
Africa.	226.1	117.0	105.6	3.0	0.5	4.3	4.3	–
Latin America	44.1	7.9	34.9	0.3	1.0	–	–	–
Other developing countries	50.9	18.8	18.5	10.8	2.8	0.8	0.8	–
Of which:								
Asia.	22.0	9.1	1.0	10.5	1.4	–	–	–
Africa.	15.1	9.2	5.1	0.3	0.5	0.8	0.8	–
Latin America	13.8	0.5	12.4	–	0.9	–	–	–
TOTAL	1 122.0	638.5	319.5	229.7	34.3	19.4	19.4	–

11. The table makes clear the local character of the oil products trade, with the Caribbean as by far the largest supplier to the United States, Eastern Europe as the major supplier to Western Europe and South-East Asia as the largest supplier to Japan. Middle East/Gulf exports of oil products, which accounted for less than one fifth of the total trade volume, had a dispersed pattern of destinations. The average shipment distance in international oil products trade in 1976 was 3,650 nautical miles, whereas the average distance for crude oil shipments was nearly twice as great, being 7,200 nautical miles.

12. Lack of statistical data has made it impossible to produce a more detailed matrix for trade in oil products, similar to that produced for crude oil, but further data on exports (without destination) and imports (without origin) are given in table 6 (which, however, is not strictly comparable with table 5 since the figures include some overland movements).

13. Table 7 gives the percentage distribution in terms of ton-miles of international trade in oil products in 1976.

14. About 70 per cent of the product tanker demand originated in developing countries; 13 per cent of this demand originated in socialist countries and 17 per cent in developed market-economy countries. On the import side, Western Europe, the United States and Japan together accounted for 72 per cent of product tanker demand; other developed market-economy countries accounted for about 4 per cent, developing countries for 22 per cent and socialist countries for a negligible fraction.

Liquefied petroleum gas (LPG)

15. Table 8 shows the world pattern of seaborne movements of LPG in 1976, while table 9 shows the percentage distribution of this trade between the four main groupings of countries.

Liquefied natural gas (LNG)

16. The number of countries involved in the LNG seaborne trades is very limited. Full details for 1976 are given in matrix form in table 10, which shows the trade volume both in millions of cubic metres and in millions of tons.

CHAPTER II

The marketing of hydrocarbons

General observations

17. World trade in crude oil, oil products and LPG is handled by five main types of organizations: the transnational oil companies, national oil-exporting companies, national oil-importing companies, traders and brokers.

trade in crude oil, 1976

of tons)

Oil-exporting developing countries					*Other developing countries*				
Total	*Middle East*	*Indonesia*	*Africa*	*Latin America*	*Total*	*Asia*	*Africa*	*Latin America*	*Total*
0.1	–	–	0.1	–	–	–	–	–	25.0
0.1	–	–	0.1	–	–	–	–	–	24.7
–	–	–	–	–	–	–	–	–	–
–	–	–	–	–	–	–	–	–	–
–	–	–	–	–	–	–	–	–	0.3
–	–	–	–	–	9.2	1.9	0.9	6.4	40.9
–	–	–	–	–	8.4	1.1	0.9	6.4	33.8
–	–	–	–	–	0.8	0.8	–	–	7.1
1.0	–	–	–	1.0	204.3	98.5	14.8	91.0	1 338.4
–	–	–	–	–	157.2	95.9	12.5	48.8	961.3
–	–	–	–	–	9.3	2.3	–	7.0	63.8
–	–	–	–	–	24.0	0.3	2.3	21.4	254.4
1.0	–	–	–	1.0	13.8	–	–	13.8	58.9
–	–	–	–	–	7.9	1.4	–	6.5	59.6
–	–	–	–	–	1.9	1.3	–	0.6	23.9
–	–	–	–	–	1.0	0.1	–	0.9	16.9
–	–	–	–	–	5.0	–	–	5.0	18.8
1.1	–	–	0.1	1.0	221.4	101.8	15.7	103.9	1 463.9

TABLE 3

Percentage distribution of seaborne trade in crude oil (in terms of tonnage), 1976

	Destination					
Origin	*Developed market-economy countries*	*Socialist countries of Eastern Europe*	*Socialist countries of Asia*	*Oil-exporting developing countries*	*Other developing countries*	*Total*
Developed market-economy countries	1.7	–	–	–	–	1.7
Socialist countries of Eastern Europe	1.7	–	–	–	0.5	2.2
Socialist countries of Asia	0.4	–	–	–	0.1	0.5
Oil-exporting developing countries	76.2	1.2	–	0.1	14.0	91.5
Other developing countries	3.5	0.1	–	–	0.5	4.1
TOTAL	83.5	1.3	–	0.1	15.1	100.0

Note: Most of the trade among the socialist countries of Eastern Europe is treated as overland transport.

TABLE 4

Percentage distribution of seaborne trade in crude oil (in terms of ton-miles), 1966, 1971 and 1976

	1966	*1971*	*1976*
Exporting areas			
Middle East/Gulf	72	81	83
Near East	6	2	0.5
Caribbean	6	3	1.5
North Africa	8	5	4
West Africa	8	5	5
South-East Asia		2	4
Others		2	2
Importing areas			
Western Europe	52	65	52
United States of America	7	4	20
Japan	20	18	13
Others	21	13	15

TABLE 5

Major seaborne trade in oil products, 1976

(*Millions of tons*)

	Destination				
Origin	*Western Europe*	*United States of America*	*Japan*	*Others*	*Total*
Middle East/Gulf	4.1	2.9	11.1	32.8	50.9
Caribbean	10.0	80.1	0.3	11.0	101.4
South-East Asia	0.3	1.5	15.1	4.0	20.9
Eastern Europe	32.1	0.9	0.5	7.2	40.7
Others	6.3	19.9	3.5	16.4	46.1
TOTAL	52.8	105.3	30.5	71.4	260.0

TABLE 6

International trade[a] in oil products, 1966, 1971 and 1976

(Millions of tons)

Region or country	*Exports* 1966	*Exports* 1971	*Exports* 1976	*Imports* 1966	*Imports* 1971	*Imports* 1976
United States of America	9.5	12.3	11.9	71.8	115.5	103.3
Canada	1.8	3.8	12.0	8.5	6.0	2.0
Caribbean	94.8	113.0	114.5	3.3	3.8	9.9
Other Western hemisphere	2.8	1.0		6.0	3.8	
Western Europe	10.5	15.3	14.4	57.0	34.8	54.1
Middle East	56.0	64.2	49.8	1.0	–	3.9
North Africa	3.5	2.3	3.4	2.5	4.0	3.7
West Africa	5.5	0.5	1.2	3.5	1.0	2.0
East and South Africa	1.0	0.5	1.4	11.3	6.5	2.1
South Asia			–			5.2
South-East Asia	5.3	9.8	17.5	7.0	15.0	24.6
Japan	1.8	1.0	0.1	16.8	41.5	28.7
Australasia	0.8	0.8	2.7	2.0	3.8	5.5
Eastern Europe-China	24.5	27.5	43.0	0.3	0.8	1.0
Details not known[b]	–	–	–	26.8	15.5	25.9
TOTAL	217.8	252.0	271.9	217.8	252.0	271.9

Source: BP Statistical Review of the World Oil Industry (London, British Petroleum Co. Ltd.), for each of the years 1966, 1971 and 1976.

[a] Trade within the separate regions listed is excluded.

[b] Includes increased quantities in transit, transit losses, minor movements not otherwise shown, military use etc.

TABLE 7

Percentage distribution of international trade in oil products (in terms of ton-miles), 1976[a]

Exporting area		*Importing area*	
Middle East/Gulf	34	Western Europe	30
Caribbean	24	United States of America	27
Eastern Europe	13	Japan	15
South-East Asia	8	Others[b]	28
Others[b]	21		
	100		100

Source: BP Statistical Review of the World Oil Industry, 1976 (London, British Petroleum Co. Ltd.).

[a] Trade within the separate regions listed is excluded.

[b] Includes increased quantities in transit, transit losses, minor movements not otherwise shown, military use etc.

TABLE 8. – World seaborne

(Millions

From \ To	Developed market-economy countries: Total	Europe	North America	Japan	Other	Socialist countries: Total	Eastern Europe	Asia
Developed market-economy countries	2.62	1.16	0.07	1.39	–	0.03	0.03	–
Of which:								
Europe	1.18	1.16	0.02	–	–	0.03	0.03	–
North America	0.25	–	–	0.25	–	–	–	–
Japan	–	–	–	–	–	–	–	–
Other	0.19	–	0.05	1.14	–	–	–	–
Socialist countries	0.30	0.30	–	–	–	0.02	0.02	–
Of which:								
Eastern Europe	0.30	0.30	–	–	–	0.02	0.02	–
Asia	–	–	–	–	–	–	–	–
Oil-exporting developing countries	6.81	0.91	0.93	4.97	–	0.04	0.03	0.01
Of which:								
Middle East	5.76	0.56	0.23	4.97	–	0.04	0.03	0.01
Indonesia	x	–	x	–	–	–	–	–
Africa	0.51	0.31	0.20	–	–	–	–	–
Latin America	0.54	0.04	0.50	x	–	–	–	–
Other developing countries	0.01	0.01	x	–	–	–	–	–
Of which:								
Asia	x	–	x	–	–	–	–	–
Africa	–	–	–	–	–	–	–	–
Latin America	0.01	0.01	x	–	–	–	–	–
TOTAL	9.94	2.38	1.00	6.36	–	0.09	0.08	0.01

Note: The symbol x indicates less than 5,000 tons.

TABLE 9

Percentage distribution of world seaborne trade in LPG (in terms of tonnage), 1976

Origin	Destination: Developed market-economy countries	Socialist countries of Eastern Europe	Socialist countries of Asia	Oil-exporting developing countries	Other developing countries	Total
Developed market-economy countries	22.1	0.3	–	1.4	3.1	26.9
Socialist countries of Eastern Europe	2.5	0.2	–	–	0.9	3.6
Socialist countries of Asia	–	–	–	–	–	–
Oil-exporting developing countries	57.5	0.2	0.1	0.2	9.5	67.5
Other developing countries	0.1	–	–	–	1.9	2.0
TOTAL	82.2	0.7	0.1	1.6	15.4	100.0

trade in LPG, 1976

of tons)

Total	Oil-exporting developing countries				Other developing countries				Total
Total	*Middle East*	*Indonesia*	*Africa*	*Latin America*	*Total*	*Asia*	*Africa*	*Latin America*	*Total*
0.17	0.11	–	0.06	–	0.37	0.02	0.12	0.23	3.19
0.17	0.11	–	0.06	–	0.15	–	0.12	0.03	1.53
–	–	–	–	–	0.19	–	–	0.19	0.44
–	–	–	–	–	x	x	–	–	x
–	–	–	–	–	0.03	0.02	–	0.01	1.22
–	–	–	–	–	0.10	–	0.05	0.05	0.42
–	–	–	–	–	0.10	–	0.05	0.05	0.42
–	–	–	–	–	–	–	–	–	–
0.02	–	–	–	0.02	1.13	0.25	0.14	0.74	8.00
0.02	–	–	–	0.02	0.45	0.25	0.06	0.14	6.27
–	–	–	–	–	–	–	–	–	x
–	–	–	–	–	0.10	–	0.08	0.02	0.61
–	–	–	–	–	0.58	–	–	0.58	1.12
–	–	–	–	–	0.23	0.10	0.01	0.12	0.24
–	–	–	–	–	0.10	0.10	–	–	0.10
–	–	–	–	–	0.01	–	0.01	–	0.01
–	–	–	–	–	0.12	–	–	0.12	0.13
0.19	0.11		0.06	0.02	1.83	0.37	0.32	1.14	11.85

TABLE 10

World seaborne trade in LNG, 1976

Origin	Destination						
	France	*Italy*	*Spain*[a]	*United Kingdom*	*United States*	*Japan*	*Total*
	Millions of cubic metres						
United States of America	–	–	–	–	–	2.23	2.23
Algeria	4.90	–	0.29	1.59	0.48	–	7.26
Libyan Arab Jamahiriya	–	4.36	2.37	–	–	–	6.73
Brunei	–	–	–	–	–	11.28	11.28
TOTAL	4.90	4.36	2.66	1.59	0.48	13.51	27.50
	Millions of tons						
United States of America	–	–	–	–	–	1.00	1.00
Algeria	2.21	–	0.14	0.72	0.22	–	3.29
Libyan Arab Jamahiriya	–	1.96	1.12	–	–	–	3.08
Brunei	–	–	–	–	–	5.08	5.08
TOTAL	2.21	1.96	1.26	0.72	0.22	6.08	12.45

Source: Based on OECD, *Oil Statistics, 1976* (Paris).

[a] Imports into Spain for which the country of origin is not specified are distributed in the same proportions as in 1975 (according to *World Energy Supplies 1971-1975* (United Nations publication, Sales No. E.77.XVII.4)).

18. The transnational companies are dominated by the so-called Seven Majors (British Petroleum, Exxon, Gulf, Mobil, Shell, Standard Oil of California and Texaco), which together handle about 52 per cent of world crude oil production outside the socialist countries. Another 22 North American and European companies[3] handle a further 12 per cent of these supplies. Until the end of the 1960s, the transnational oil companies dominated the chain from producer to ultimate consumer but, with the nationalization of oil production at an accelerated pace during the early 1970s most of the oil-producing countries have established national companies to control oil production. Table 11 illustrates the declining share in production of the transnational oil companies during the current decade.

19. To date, the national oil-exporting companies have not made any significant move into distribution activities and the overwhelming proportion of crude oil and oil products continues to be exported on an f.o.b. basis. Many of the national oil-exporting companies maintain close connexions with their former concession holders through production participation agreements or long-term purchase agreements (three to five years) which stipulate minimum and maximum volumes. In fact, it is estimated that 70-75 per cent of world crude oil exports are made available either through production participation agreements or through such long-term purchase agreements. The balance of production is sold on short-term contracts (normally limited to one year and involving the major distributors) or through spot sales (limited to one or a few specific liftings).

20. In addition to purchasing crude oil for their own needs, the Seven Majors also act as traders, purchasing crude for resale to other oil companies. In 1976 the Seven Majors controlled supplies of 1,263 million tons of crude, whereas their own refining capacity amounted to only 956 million tons; by contrast, the next 22 large companies possessed refining capacity amounting to 379 million tons but purchased supplies of only 254 million tons direct from the oil-producing countries.

21. The national oil-importing companies are small compared with the transnational companies. Few of them are directly involved in shipping as shipowners; they may, however, charter vessels to lift oil purchased on an f.o.b. basis. The Japanese refinery and distribution companies constitute one of the major groups in this category.

22. Traders buy and sell on their own account (unlike brokers) and most of their operations appear to be concentrated in the products trades, although the nature of their business varies a good deal. Some traders have supply contracts with major industrial consumers, while others operate on a more speculative basis. They serve the international market by solving temporary imbalances in supply and demand. Some traders charter tankers and a few operate their own tonnage. The volumes they handle vary with the market situation. Their share increases when the supply/demand situation tightens, and hence it is relatively low at the present time. As noted, the major oil companies also act as traders. The international LPG trade is dominated by a few traders, some of whom operate their own tonnage or charter vessels.

23. Brokers, as the name implies, match seller and buyer and do not operate on their own account. They normally operate on the spot market and fulfil the function of levelling out geographical imbalances.

Crude oil

24. The lack of penetration into downstream activities by the national oil-exporting companies and the limited roles of the other categories of organizations result, as far as crude oil is concerned, in the continuing domination of marketing by the transnational oil companies, notwithstanding the nationalization measures which went into effect in the early part of the present decade. Table 12 shows the supplies controlled by the Seven Majors and the 22 large North American and European companies according to area of origin.

Oil products

25. The market for oil products is complicated by the fact that these products are sold by refineries located in non-oil-producing as well as oil-producing countries. There are three main categories of refineries: resource refineries (large refineries situated close to oil wells, specially built to refine the local crude); balance refineries (large refineries located closer to markets and built to process crudes from different sources); and market refineries (refineries of varying sizes specially built to serve local markets). The main balance refineries are located in Rotterdam, Italy, Singapore and the Caribbean.

26. Of the 260 million tons of oil products shipped by sea in 1976, about 100 million tons were shipped from balance refineries, mainly from the Caribbean to the United States; from North Europe to South Europe and vice versa; and from Singapore to the Far East and Japan. Most of the remaining 160 million tons were shipped from resource refineries.

27. The 29 major transnational oil companies own no less than 60 per cent of world refining capacity outside the socialist countries and virtually all of the main balance refineries. Thus, in handling sales from balance refineries these companies are in a position to control the production/marketing/distribution chain for oil products much as they once controlled the production, marketing and distribution of crude oil. Even in handling products from resource refineries the same companies are in a dominant position since, as noted above, they buy on f.o.b. terms.

28. In many trades the dominant position of the transnational oil companies is reinforced by their ownership of market refineries and their control of distribution systems in importing countries. In such situations the same transnational company is thus both seller and buyer; and international maritime transport is for it an internal company operation. The only importing countries which are in a position to break this chain of control are clearly those which establish national companies to control importing and/or domestic oil distribution.

[3] Amerada Hess Corporation, Apco Oil Corporation, Ashland Oil Inc., Atlantic Richfield Company, Champlin Petroleum Company, Cities Service Company, Clerk Oil and Refining Corporation, Compagnie Française des Pétroles, Continental Oil Company, Getty Oil Company, The Louisiana Land and Exploration Company, Marathon Oil Company, Murphy Oil Corporation, Petrofina Société Anonyme, Phillips Petroleum Company, Skelly Oil Company, Standard Oil Company (Indiana), The Standard Oil Company (Ohio), Sun Company, Inc., The Superior Oil Company, Tosco Corporation, Union Oil Company of California.

TABLE 11

Estimated gross share of OPEC crude oil production by category of oil company, 1971-1976

	Total production of OPEC member countries	*Gross share of production*					
		Government or national oil company		*Other oil companies, excluding the Seven Majors*		*Seven Majors*	
Year	*Millions of tons*	*Millions of tons*	*Percentage*	*Millions of tons*	*Percentage*	*Millions of tons*	*Percentage*
1971 .	1 265	49	4	223	18	992	78
1972 .	1 353	112	8	205	15	1 036	77
1973 .	1 547	652	42	150	10	743	48
1974 .	1 537	913	60	136	9	485	31
1975 .	1 358	827	61	127	9	403	30
1976 .	1 528	1 142	75	97	6	289	19

Source: OPEC, Annual Statistical Bulletin, 1976.

TABLE 12

Crude oil production and supply to oil companies, and oil consumption, for selected areas, 1976

	Crude oil production	*Production supply to oil companies*[a]				Oil consumption
		Seven Majors		*Other North American and European oil companies*[b]		
Area	*(Millions of tons)*	*Millions of tons*	*Percentage of area production*	*Millions of tons*	*Percentage of area production*	*(Millions of tons)*
Western Europe	45	18	40	11	24	706
United States of America	461	175	38	101	22	822
Canada	77	30	39	22	29	86
Latin America	233	76	32	4	2	186
Middle East	1 100	750	68	70	7	73
Africa	285	100	35	41	14	54
Australia and Far East .	124	65	52	5	4	414
TOTAL	2 325	1 214	52	254	11	2 341

[a] Based on production (participation) of companies and affiliates and on supply contracts. Excludes the national oil companies of the socialist countries of Eastern Europe and Asia.

[b] The 22 companies listed in foot-note 3 above.

Liquefied petroleum gas (LPG)

29. The marketing situation in the LPG trade is somewhat different. Historically the trade in LPG was based on gas produced by refineries in the main importing countries; most sales were concluded between developed countries on a spot basis and most of the transport took place by land. Such maritime transport as is involved in this traditional trade is dominated by traders and independent owners.

30. The export of LPG by oil-producing countries began in the last five to ten years. This trade has involved the exporting countries in heavy investments in liquefaction plants which could be justified only through long-term sales contracts, rather than spot sales, and the projects have been developed with considerable involvement on the part of the Governments of the exporting countries. Most sales are made to transnational gas/oil companies and to traders. Table 13 shows the structure of the LPG marketing arrangements in individual trades in 1976.

31. Although most LPG sales are currently being made on an f.o.b. basis, the government exporting agencies are showing an interest in downstream activities and some are reported to be considering selling on a c.i.f. basis and participating in terminal operations and marketing in the importing countries. At the present time the Japanese appear to be the only importers to operate tankers for their LPG imports; in other cases, maritime transport is handled by independent tanker owners or occasionally by the exporting countries (which charter their vessels to importers in the case of f.o.b. sales).

TABLE 13

Structure of LPG marketing in 1976

Exporting country	*Category of body/bodies responsible for marketing*	*Categories of purchasers*	*Main markets*
Abu Dhabi	Government company	Industrial consumers	Japan
Algeria	Government company	Traders and gas companies	United States of America Mediterranean
Australia	Concession holders	Oil and gas companies	Japan
Indonesia	Concession holders	Traders	United States of America
Iran	Former concession holders	Industrial consumers	Japan
Kuwait	Government company	Traders and industrial consumers	Japan
Libyan Arab Jamahiriya	Government company/ concession holders	Traders and gas companies	Spain United States of America
Qatar	Government company	Traders and gas companies	United States of America Spain
Saudi Arabia	Former concession holders	Oil and gas companies	Japan
USSR	Government company	Traders and industrial consumers	Europe
Venezuela	Government company/ former concession holders	Traders	United States of America

Liquefied natural gas (LNG)

32. In the LNG trades, contracts are complex and differ from project to project. However, a general trend seems to be that the Governments in the exporting countries participate in the ownership of the LNG plant as well as in a trading company that purchases LNG f.o.b. and delivers the cargo c.i.f. at the receiving terminal. The Governments sometimes also own part of the tonnage on charter to the trading company but they rarely participate in the ownership of the regasification plant at the receiving end. LNG ships are owned by governmental agencies, independent owners, oil/gas companies or financial institutions and are generally employed on 20-year to 25-year charters or on contracts of affreightment to joint venture companies owned by the exporting country and oil/gas companies.

CHAPTER III

The world tanker fleet

33. The four main categories of vessels used in the international maritime transport of hydrocarbons are set out in table 14, which shows the number and capacity of vessels in each category in the existing fleets at 1 January 1977.[4]

34. Combined carriers have been included with tankers of the same size-category on account of their potential oil-carrying capacity. Vessels in the 10,000-60,000 dwt category are used primarily in the oil products trades, while those of over 60,000 dwt are used basically for crude oil, although in practice a certain amount of crude may be transported by the smaller tankers and some of the larger tankers may be used for products. Certain of the vessels included in the LNG fleet are also capable of carrying LPG, and the LPG fleet includes some vessels which are also capable of carrying chemicals, solvents, or oils. However, for statistical purposes such minor variations are ignored.

35. The table sets out details of the world fleet according to country of registration, though the ownership of vessels as registered in the open-registry countries is, of course, purely nominal. In the present context the open-registry countries comprise the Bahamas, Bermuda, Cyprus, Liberia, Panama, Singapore and Somalia, together with the Netherlands Antilles, where the register is "open" only to the Netherlands.

36. Another report by the UNCTAD secretariat which is before the Conference[5] demonstrates that the beneficial ownership of open-registry vessels is almost entirely traceable to shipowners of developed market-economy countries. Table 15 shows the open-registry tanker tonnage beneficially owned, for each country in which it exceeds 1 million tons. Combining the information given in tables 14 and 15, it is apparent that the ownership of the world fleet is heavily concentrated in the hands of the developed market-economy countries, which own no less than 91 per cent of the deadweight tonnage of tankers and combined carriers. The percentages of the fleet owned by developing countries (whether oil-producing or not) and socialist countries are minimal.

37. In addition to beneficially owning tankers registered under flags of convenience, the transnational oil companies also own substantial tanker tonnage registered under the

[4] Details of the world fleet are set out in *Review of maritime transport, 1977* (United Nations publication, Sales No. E.79.II.D.7).

[5] See document TD/222/Supp.1, reproduced in the present volume.

flags of countries with normal shipping registers. In particular, United States oil companies own tankers registered in the United Kingdom and in a number of other European countries.[6] In fact, to gain a full insight into the ownership of the world tanker fleet it is necessary to consider not only data according to country of registration and, in open-registry countries, according to beneficial ownership but also information showing how ownership is distributed among various categories of oil companies and independent shipowners.

38. Table 16 shows that at the end of 1977 the oil companies owned 40 per cent of the world oil tanker tonnage and that independent shipowners owned the remaining 60 per cent.

39. A more detailed analysis reveals that "other oil companies" owned more tonnage than the Seven Majors in the tanker size category 60,000-175,000 dwt—a total of 22.6 million dwt, compared with 7.5 million dwt. In the case of vessels above 175,000 dwt, however, the Seven Majors were dominant, with 54.3 million dwt compared with 22.5 million dwt owned by "other oil companies".

40. Table 16 does not fully reveal the degree of control exerted over the world oil tanker fleet by the oil companies since, in addition to their own fleets, they control substantial fleets hired on long-term charters. Table 17 analyses the total tonnage operated by the oil companies at the end of 1977, distinguishing vessels which were owned, time-chartered and voyage-chartered. These transport arrangements largely follow the pattern of marketing arrangements, since the oil companies over their long-term purchase commitments with their own or long-term chartered tonnage and spot purchase with voyage charters concluded on the spot market.

41. Table 17 indicates that the oil companies control about 222 million dwt (i.e. the owned and time-chartered tonnage), which amounts to no less than 74 per cent of the active world fleet of oil tankers (deducting from the total shown in table 16 the 31 million dwt that were laid up, as noted below). It will also be noted that the Seven Majors

[6] For details, see United States of America, Department of Commerce, Maritime Administration, *Foreign Flag Merchant Ships Owned by U.S. Parent Companies* (Washington, D.C., U.S. Government Printing Office, 1968).

TABLE 14

World capacity for maritime transport of hydrocarbons, 1 January 1977

Country of registration	*Tankers and combined carriers 10,000-60,000 dwt* Number	Thousands of dwt (and percentage)	*Tankers and combined carriers over 60,000 dwt* Number	Thousands of dwt (and percentage)	*LPG vessels over 2,000 cu m* Number	Thousands of dwt (and percentage)	*LNG vessels over 2,000 cu m* Number	Thousands of dwt (and percentage)
Open-registry countries	522	17 658 (*31.3*)	729	116 352 (*37.4*)	37	1 161 (*36.1*)	8	802 (*36.4*)
Developed market-economy countries	903	27 208 (*48.2*)	1 050	176 151 (*56.7*)	121	1 958 (*60.9*)	27	1 234 (*56.1*)
Of which:								
Europe	634	18 872 (*33.4*)	792	134 177 (*43.2*)	98	1 144 (*35.6*)	27	1 234 (*56.1*)
North America	198	6 149 (*10.9*)	43	4 565 (*1.5*)	2	34 (*1.1*)	–	–
Japan	56	1 764 (*3.1*)	211	37 138 (*11.9*)	21	780 (*24.2*)	–	–
Others	15	423 (*0.8*)	4	271 (*0.1*)	–	–	–	–
Socialist countries	254	6 324 (*11.2*)	36	3 491 (*1.1*)	5	40 (*1.2*)	–	–
Of which:								
Eastern Europe	226	5 632 (*10.0*)	25	2 647 (*0.8*)	5	40 (*1.2*)	–	–
Asia	28	692 (*1.2*)	11	844 (*0.3*)	–	–	–	–
Oil-exporting developing countries	49	1 557 (*2.8*)	40	6 868 (*2.2*)	1	6 (*0.2*)	2	165 (*7.5*)
Of which:								
Middle East	20	608 (*1.1*)	27	5 031 (*1.6*)	–	–	–	–
Indonesia	4	63 (*0.1*)	–	–	–	–	–	–
Africa	8	297 (*0.5*)	13	1 837 (*0.6*)	1	6 (*0.2*)	2	165 (*7.5*)
Latin America	17	589 (*1.1*)	–	–	–	–	–	–
Other developing countries	152	3 691 (*6.5*)	63	8 039 (*2.6*)	8	50 (*1.6*)	–	
Of which:								
Asia	35	978 (*1.7*)	43	5 360 (*1.7*)	–	–	–	–
Africa	10	262 (*0.5*)	1	87 (*–*)	–	–	–	–
Latin America	107	2 451 (*4.3*)	19	2 592 (*0.9*)	8	50 (*1.6*)	–	–
WORLD TOTAL	1 880	56 438 (*100.0*)	1 918	310 901 (*100.0*)	172	3 215 (*100.0*)	37	2 201 (*100.0*)

Source: for LPG and LNG fleets, H. Clarkson and Company Limited, London, *The Liquid Gas Carrier Register, 1977.*

TABLE 15

Beneficial ownership of tankers in open-registry fleets, 1978

Country or territory of beneficial ownership	*Liberia*		*Panama*		*Singapore*		*Cyprus*		*Bermuda*		*Hong Kong*		*Bahamas*		*Total*	
	Number	*Thousands of dwt*	*Number*	*Thousands of dwt*	*Number*	*Thousands of dwt*	*Number*	*Thousands of dwt*	*Number*	*Thousands of dwt*	*Number*	*Thousands of dwt*	*Number*	*Thousands of dwt*	*Number*	*Thousands of dwt*
United States of America . . .	307	44 761	78	5 573	1	6	–	–	4	394	–	–	–	–	390	50 734
Greece	236	23 918	18	684	4	284	15	288	4	216	–	–	–	–	277	25 390
Hong Kong.	96	15 364	19	2 464	–	–	–	–	–	–	–	–	–	–	115	17 828
Japan	31	3 956	16	541	49	4 553	–	–	–	–	–	–	–	–	96	9 050
Israel	12	1 594	4	235	–	–	–	–	–	–	–	–	–	–	16	1 829
Italy	8	1 466	5	105	–	–	1	6	1	81	–	–	–	–	15	1 658
Germany, Fed. Rep. of.	6	1 354	2	3	5	170	–	–	–	–	–	–	–	–	13	1 527
Canada	–	–	–	–	–	–	–	–	16	1 128	–	–	1	20	17	1 238
United Kingdom	15	1 162	–	–	–	–	–	–	1	2	–	–	–	–	16	1 164
TOTAL[a]	711	93 575	142	9 605	59	5 013	16	294	26	1 911	–	–	1	20	955	110 418
All countries and territories of beneficial ownership: total. .	816	100 123	187	10 739	95	5 761	24	362	28	2 037	2	33	2	77	1 154	119 132

Source: Based on data prepared for the UNCTAD secretariat by A and P. Appledore (London) Ltd.

[a] Countries with open-registry tanker fleets exceeding 1 million dwt.

TABLE 16

Ownership of oil tankers (end 1977)

(Millions of dwt)

	Tankers of 10,000-60,000 dwt	*Tankers of over 60,000 dwt*	*Total*
The Seven Majors	9.3	61.8	71.1
Other oil companies	15.3	45.1	60.4
Independent owners	25.3	175.1	200.4
TOTAL	49.9	282.0	331.9

TABLE 17

Oil companies' transport capacity mix (end 1977)

	Owned tonnage		*Time charter*		*Voyage charter*		*Total*	
	Millions of dwt	*Percentage*	*Millions of dwt*	*Percentage*	*Millions of dwt*	*Percentage*	*Millions of dwt*	*Percentage*
The Seven Majors	71.1	52	49.2	36	16.4	12	136.7	100
Other oil companies	60.4	38	41.3	26	57.2	36	158.9	100
All oil companies	131.5	45	90.5	30	73.6	25	295.6	100

Note: Tonnage owned by an oil company and chartered to another oil company is included only as "owned tonnage", to avoid double counting.

are more deeply involved as tanker owners and operators than the other oil companies.

42. The pattern of ownership of gas tankers is different from that of oil tankers. Table 18 shows the percentage of such vessels owned by different categories of owners. It is not possible to separate ownership by Governments and by oil/gas companies in view of the high level of government participation in the companies handling these trades. The percentages for tankers on order, also included in the table, indicate the increasing participation by oil/gas companies and Governments. Finally, the table includes percentages of the existing fleet and vessels on order, taken together. This third set of percentages provides a useful indication of forthcoming changes in the distribution of the ownership of gas tankers.

43. It is estimated that around 80 million dwt was surplus to world requirements for the oil trades at the end of 1977, amounting to an over-capacity of about 30 per cent. The over-supply of tankers took the form of 31 million dwt laid up, the equivalent of 40 million dwt tied up in slow steaming and 4 million dwt tied up in abnormal congestion. To these must be added the over-supply of combined carriers (50 per cent of which may be assumed to represent tanker tonnage), consisting of 6 million dwt laid

TABLE 18

Ownership of existing fleet and gas tankers on order, 1 January 1977

(Percentage of world total)

	Oil/gas companies and Governments	*Gas traders*	*Independents*	*Total*
LPG tankers:				
Existing fleet	6	9	85	100
On order	30	4	66	100
Fleet and orders	17	7	76	100
LNG tankers:				
Existing fleet	31	–	69	100
On order	77	–	23	100
Fleet and orders	64	–	36	100

up and the equivalent of 4 million dwt tied up in slow steaming and congestion. A survey made at the end of March 1978 indicated that the major oil companies had 7 per cent of their tanker fleets laid up; the other oil companies, 10 per cent; and the independent owners, 15 per cent.[7]

44. The wastage of world resources involved in the building of excess tanker capacity is undoubtedly connected with the expansion of the open-registry fleets, which has been taking place at a more rapid rate than that of any other sector of the world fleet.[8] At the recent session of the *Ad Hoc* Intergovernmental Working Group on the Economic Consequences of the Existence or Lack of a Genuine Link between Vessel and Flag of Registry, claims were made to the effect that the open-registry fleets have been operating without effective government control or regulation.[9] The validity of these claims has since been confirmed by the findings of the UNCTAD secretariat in its report on beneficial ownership of open-registry fleets.[10]

CHAPTER IV

Tanker freight rates and operating costs

45. Freight rates for oil transport are not normally quoted directly per ton of cargo or per dwt capacity per month (as in the dry cargo trades) but by reference to a "Worldscale" (W) level which corresponds to specific voyage rates per cargo ton expressed in US dollars. Worldscale is an international freight reference system which is used to simplify both the process of quoting freight rates and the comparison of the net return per day (to an owner) of alternative fixtures. The essence of the system is that a given Worldscale rate should yield the same return per day regardless of the trade route. Worldscale consists primarily of a set of reference rates for alternative voyages, combined with a scale expressing actual freight rates as a percentage of the reference rates.

46. The basic reference rate is Worldscale 100, which relates to a standard tanker of 19,500 dwt and in principle gives a net return of $1,800 a day on its operations, regardless of the voyage undertaken. Since different voyages involve different voyage costs,[11] any given Worldscale rate corresponds to different sums in US dollars per cargo ton according to the voyage. The current Worldscale schedule contains approximately 50,000 voyage rates and covers about 1,100 ports. Each of the rates is calculated on the basis of a laden voyage to the port(s) of destination and a ballast voyage back to the port(s) of loading. Since the voyage costs vary from time to time, the Worldscale rates are revised twice a year. Market rates are all quoted by reference to W 100. Thus, if the reference rate (W 100) for lifting an oil cargo from port A to port B is $10 per cargo ton, then W 110 is 10 per cent higher, or $11 per cargo ton, and W 85 is 15 per cent lower, or $8,50 per cargo ton.

47. In view of the significance of economies of scale in oil transport, large tankers can operate much more economically than small tankers. As a result, market rates generally differ for tankers of different size categories.[12] During the first four months of 1978, the spot market rates quoted for different sized tankers were as follows:

50,000 dwt	W56 to W 89
150,000 dwt	W25 to W 36
250,000 dwt	W17 to W 24

48. It is therefore essential to consider tanker rates in conjunction with tanker sizes. While in principle large tankers are more economical, their use may be limited by the cargo volume available for lifting, by draft limitations or limitations in the port facilities. While it is customary to compile indices for rates on specific routes, it should be noted that the market rates which prevail are determined basically by the size of the tankers used on the different routes (taking into account the size limitations which are inherent in particular routes).

49. The profitability of tanker operation at the market rates prevailing at any particular point of time depends upon such factors as the capital cost of the tanker (which will be very different, for example, for a tanker purchased new at a period of peak building prices and one bought second-hand when the market was low) and the crew costs (which are a significant element in daily operating costs). Independent tanker owners of expensive flag vessels (i.e. those with high labour costs) claim that they cannot operate profitably at current depressed market rates. It is said, for instance, that a shipowner operating a 250,000-ton tanker under a "medium expensive flag" would need a rate of W 17 to cover his voyage costs; a rate of W 31 to cover his voyage costs plus daily operating costs; a rate of W 42 to cover his total costs (i.e., including capital costs) if the vessel had been bought second-hand in 1976, and a rate of W 67 to cover his total costs if the vessel had been bought new in 1973, when prices were at their peak. However the profitability of independent tanker operations cannot be determined by comparing rates and costs at one particular point of time. Rates fluctuate and profits earned in boom periods must be set against losses incurred in slack periods. A rate of W 24 may appear low for a 250,000-ton tanker which needs a break-even rate of W 42, but it must be noted that as recently as the calendar year 1973 the relevant tanker rate averaged W 171. It should also be noted that the tanker owners themselves contributed to the present recession in the tanker market and to the high capital costs arising from high building prices by their own activities in over-ordering.

50. The transnational oil companies have their own reference system for internal use known as AFRA (average freight rate assessment), the purpose of which is to

[7] H. P. Drewry, *The Tanker Fleets of the International Oil Companies* (London, 1978).

[8] See foot-note 4.

[9] See the report of the *Ad Hoc* Intergovernmental Working Group on the Economic Consequences of the Existence or Lack of a Genuine Link between Vessel and Flag of Registry (TD/B/C.4/177).

[10] See document TD/22/Supp.1, reproduced in the present volume.

[11] Voyage costs, as distinct from daily operating costs, consist of agents' commission, port and canal dues, loading and discharging expenses, dispatch, other voyage expenses, bunkers and cargo insurance.

[12] For the Worldscale rate indices for different classes and size categories of tankers in recent years, see *Review of Maritime Transport, 1977* (see foot-note 4), table 24.

determine the transportation element in the cost of the oil which they ship and hence the average cost of oil per ton. Since such a large part of the maritime transport of oil consists of internal operations of the transnational oil companies, AFRA rates are of relevance to the ultimate consumers of oil.

51. AFRA rates are published monthly and represent the weighted average for long-term fixtures, single voyage fixtures and owned tonnage. AFRA rates are calculated for different categories of vessel; however, the formulae and weights used by the oil companies are not published. Table 19 shows AFRA rates since 1976.

52. On the basis of AFRA rates (which during 1978, it may be noted, were considerably above the level of spot rates given in paragraph 47), the total cost of international seaborne transport of oil for 1976 is calculated to be about $10 billion for crude oil and about $2 billion for oil products.

TABLE 19

AFRA (average freight rate assessment) according to category of vessel

(Monthly averages in Worldscale)

Vessel category	*1976*	*1977*	*1978 January-May*
General purpose 16,500-25,000 dwt	132.7	151.7	154.3
Medium size 25,000-45,000 dwt	117.6	114.7	110.9
Large (1) 45,000-80,000 dwt	77.1	74.7	69.1
Large (2) 80,000-160,000 dwt	57.1	54.8	51.6
Very large ultra-large crude carrier 160,000-320,000 dwt	50.3	47.9	44.5

CHAPTER V

Combined carriers

53. Combined carrier operations are of particular interest to certain developing countries, especially those which export ore and import oil or vice versa. There are two main types of conventional combined carriers: (*a*) ore/oil carriers; (*b*) ore/bulk/oil carriers, normally referred to as bulk/oil carriers. Ore/oil carriers are basically intended for shipment of ores, being similar to ore carriers but built with side tanks and cargo holds for oil. A bulk/oil carrier may be described as a bulk carrier, basically tailored for coal or grain shipments but adapted for the carriage of oil and strengthened to carry cargoes with a high specific gravity. Combined carriers became popular in the 1960s and orders reached a peak in 1970.

54. The development of the world fleet of conventional combined carriers is shown in table 20.

55. Combined carriers represent a link of growing significance between the oil and the dry bulk markets for maritime transport, as illustrated by the fleet tonnages at 1 January in selected years shown in table 21.

56. Table 22 shows the combined carrier tonnage as a percentage of the tonnage of the various fleet sectors at 1 January in the selected years. From the 1977 data it may be seen that while combined carriers constitute only 8 per cent of the world merchant fleet, these vessels offer substantial potential competition for bulk carriers and, to a lesser extent, for tankers.

57. While conventional combined carriers are designed to serve both the oil and the dry cargo markets, from a technological point of view they are suboptimal to operate for either of these markets alone. On the other hand, when their flexibility to carry both cargoes is utilized, combined carriers may be more economical than either other type of carrier owing to the reduction of ballast distance; this is especially true when they are used to transport oil and dry bulk cargoes on opposite voyage legs. The possibilities for such operations may be limited, however, if the flow of cargoes in the two directions is unbalanced. On the back haul a large number of vessels may be competing for a low volume of cargo. This can result in such a low level of freight rates on the back haul that it becomes more economical to operate the vessel in one-way employment.

58. Some owners build combined carriers so that they can switch from one market to the other when large differences develop in the freight rates for oil and dry bulk cargoes. However, when both these markets are depressed simultaneously the proportion of charterless combined carriers laid up may be higher than that of tankers and bulk carriers. At the end of 1977 the proportions laid up were as follows for the various categories of bulk vessels: combined carriers, 12.5 per cent; tankers, 9 per cent; and bulk carriers, 2.5 per cent.

59. Table 23 shows the penetration of combined carriers into the oil and dry bulk markets. In 1976, combined carriers performed 1,660 billion ton-miles, of which 878 billion ton-miles were in oil and 782 billion ton-miles in dry bulk trading. In terms of ton-miles, combined carriers accounted for 7.9 per cent of the total oil shipments and 20.9 per cent of the total dry cargo shipments in that year. Combined carriers are utilized on relatively long trade routes, especially in the case of dry bulk shipments. Shipments by combined carriers in 1977 are estimated at about 252 million tons, of which oil accounted for 140 million tons, or 56 per cent, and dry bulk cargo for 112 million tons, or 44 per cent. About four fifths of the vessels have been wholly or partly engaged in the maritime transport of hydrocarbons.

60. Table 24 gives a more detailed analysis of the various commodities shipped by combined carriers.

61. Table 25 gives a regional analysis of oil and dry bulk shipments by combined carriers in 1976.

62. Developing countries exported 97 per cent of the oil and 46 per cent of the dry bulk cargo tonnages and they imported 14 per cent of the oil and 4 per cent of the dry bulk cargo tonnages shown in table 25. Table 26 shows the involvement of developing countries on a cargo turnover basis (exports plus imports).

63. Although developing countries accounted for 40 per cent of the cargo turnover in 1976, they owned less than 6 per cent of the world fleet of combined carriers. Only six

TABLE 20

World combined carrier fleet, selected years (at 1 January)

	Ore/oil carriers		*Bulk/oil carriers*		*Total*	
	Number	*Thousands of dwt*	*Number*	*Thousands of dwt*	*Number*	*Thousands of dwt*
1962	66	1 702	1	28	67	1 730
1967	92	3 291	17	1 109	109	4 400
1972	147	11 193	104	9 909	251	21 102
1977	214	25 715	200	21 093	414	46 808

TABLE 21

World bulk fleet, selected years (at 1 January)

(Millions of dwt)

Fleet sector	*1967*	*1972*	*1977*
Oil tankers	95.6	171.1	320.5
Combined carriers	4.4	21.1	46.8
Bulk carriers	30.9	70.4	116.6
Total bulk fleet	130.9	262.6	483.9

TABLE 22

Combined carriers as a percentage of the various fleet sectors, selected years (at 1 January)[a]

Fleet sector	*1967*	*1972*	*1977*
Oil tankers and combined carriers	4.4	11.0	12.7
Bulk carriers and combined carriers	12.5	23.3	28.6
World bulk fleet	3.4	8.0	9.7
World merchant fleet	2.0	5.9	7.9

[a] Based on data in dwt.

TABLE 23

World bulk shipments by category of vessel, selected years

(Millions of cargo tons)

	1966	*1971*	*1976*
Oil shipments			
Tankers	791	1 218	1 557
Combined carriers	11	97	121
Dry bulk shipments			
Tankers	13	1	5
Combined carriers	27	17	123
Bulk carriers	180	441	607

TABLE 24

Shipments by combined carriers in selected years

(Millions of cargo tons)

	1966	*1971*	*1976*
Oil	10.8	96.7	120.8
Iron ore	24.4	13.3	93.3
Coal	0.9	3.1	13.2
Grain	0.2	0.1	11.6
Other commodities	1.6	1.0	4.7
TOTAL	37.9	114.2	243.6

TABLE 25

Combined carrier shipments by region, 1976

(Millions of tons)

Origin	Destination: Europe	North America	Latin America	Japan	Other destinations	Total
Oil shipments						
Middle East	38.3	9.7	10.2	7.0	6.0	71.2
Africa	8.7	19.0	3.1	0.5	–	31.3
Caribbean	0.7	8.0	0.5	–	–	9.2
South-East Asia	0.3	4.5	0.3	0.4	0.2	5.7
Other origins	0.8	2.2	0.2	–	0.2	3.4
Subtotal	48.8	43.4	14.3	7.9	6.4	120.8
Dry bulk shipments						
Latin America	17.4	1.9	0.2	24.1	0.3	43.9
North America	19.7	1.2	2.2	9.9	1.2	34.2
Australia	8.9	0.1	–	17.6	0.1	26.7
Africa	5.8	0.2	–	3.4	–	9.4
Europe	4.8	0.3	0.2	0.1	0.2	5.6
Asia	1.9	–	0.1	0.7	0.3	3.0
Subtotal	58.5	3.7	2.7	55.8	2.1	122.8
TOTAL	107.3	47.1	17.0	63.7	8.5	243.6

TABLE 26

Cargo turnover of combined carrier services in developed and developing countries, 1976

	Exports (Millions of tons)		Imports (Millions of tons)		Total cargo turnover	
	Oil	Dry cargo	Oil	Dry cargo	(Millions of tons)	(Percentage)
Developed countries						
Europe	3.4	5.6	48.8	58.5	116.3	24
North America	–	34.2	43.4	3.7	81.3	17
Japan	–	–	7.9	55.8	63.7	13
Others	–	26.7	3.4	0.1	30.2	6
Developing countries						
Asia	76.9	3.0	2.5	1.9	84.3	17
Africa	31.3	9.4	0.5	0.1	41.3	9
Latin America	9.2	43.9	14.3	2.7	70.1	14
TOTAL	120.8	122.8	120.8	122.8	487.2	100

developing countries owned combined carriers: India owned 13 vessels, Brazil seven, Argentina two, and three countries–Chile, Malaysia and the Republic of Korea–one each. None of the oil-producing countries owned combined carriers. Table 27 illustrates the degree to which combined carriers registered in developing countries were employed in trade on their home country and in cross-trading.

CHAPTER VI

Participation of developing countries in the maritime transport of hydrocarbons

64. For the purpose of assessing the involvement of different groupings of countries as trading nations in the world hydrocarbon trade it is convenient to use percentages of cargo turnover in tons as the basis, thus giving equal weight to exporters and importers as trading partners.

65. Table 28 sets out estimated percentages of cargo turnover for each of four groupings of countries, and for each of the four main commodity groups. The table compares each of these percentages with the corresponding percentages for fleet ownership. The latter figures show that maritime transport of hydrocarbons is almost totally dominated by transnational corporations and other shipowners of the developed market-economy countries.

66. The low participation of oil-exporting developing countries in fleet ownership and operation is largely attributable to the practice of their main importers of buying on f.o.b. terms, but that does not make the

TABLE 27

Employment pattern in 1976 of combined carriers registered in developing countries

(Number of loaded voyages)

Registry	Number and type of vessels	Trade on home country: Oil import	Trade on home country: Dry bulk export	Trade on home country: Dry bulk import	Cross trading: Oil	Cross trading: Dry bulk
India	7 bulk/oil	0	0	3	8	16
	6 ore/oil	12	8	0	5	13
Brazil	7 ore/oil	14	21	0	7	1
Others	6 ore/oil	5	5	12	8	0
TOTAL	26	31	34	15	28	30

Note: Six vessels were delivered during the year, one vessel was laid up and one was engaged only in domestic trading.

TABLE 28

Percentage distribution of cargo turnover and fleet ownership in maritime transport of hydrocarbons among country groupings, 1976

Country groupings	Crude oil: Cargo turnover	Crude oil: Fleet ownership	Oil products: Cargo turnover	Oil products: Fleet ownership	LPG: Cargo turnover	LPG: Fleet ownership	LNG: Cargo turnover	LNG: Fleet ownership
Developed market-economy countries	42.6	94.1	45.0	79.5	54.6	97.0	54.0	92.5
Socialist countries	2.1	1.1	9.5	11.2	2.2	1.2		
Oil-exporting developing countries	45.7	2.2	21.0	2.8	34.5	0.2	25.6	7.5
Of which:								
Middle East	32.8	1.6	10.2	1.1	26.9	–	–	–
Indonesia	2.2	–	1.5	0.1	–	–	–	–
Africa	8.7	0.6	1.6	0.5	2.8	0.2	25.6	7.5
Latin America	2.0	–	7.7	1.1	4.8	–	–	–
Other developing countries	9.6	2.6	24.8	6.5	8.7	1.6	20.4	–
Of which:								
Asia	4.3	1.7	9.6	1.7	2.0	–	20.4	–
Africa	1.1	–	1.6	0.5	1.4	–	–	–
Latin America	4.2	0.9	13.6	4.3	5.3	1.6	–	–
WORLD TOTAL	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Totals on which percentages are based	2 928 million tons	310.9 million dwt	520 million tons	56.4 million dwt	23.70 million tons	3.21 million cum	24.90 million tons	2.20 million cum

Notes:

(1) For the purposes of this table the crude oil fleet is assumed to consist of vessels of over 60,000 dwt and the products fleet of vessels of 10,000 to 60,000 dwt.

(2) Vessels on open registry are included in the fleets of the developed market-economy countries.

(3) Cargo turnover data, which are based on sources quoted elsewhere in this report, are partly estimated.

(4) Fleet ownership data relate to the position at 1 January 1977.

situation any more equitable. By monopolizing transport operations instead of sharing them with their trading partners, developed countries must inevitably accentuate the divergence between the growth rates of their own economies and those of developing countries. Bulk items often constitute the main source of export income for a developing country, yet the activity of exporting such items provides in itself little opportunity for development. Expansion into oil tanker operations offers many developing countries a logical opportunity for expanding their roles in the world economy, since it constitutes a direct downstream activity. If developing countries are to become more than mere passive suppliers of commodities based on natural resources for the use of developed countries—in short, if they are to develop—there must be some change in marketing arrangements so that transport operations come to be shared more equitably.

67. The complex nature of international oil movements would make it difficult to evolve any single principle to govern rights in relation to transport. Certain cargoes move on a regular basis and offer constant employment for tankers plying on shuttle services between trading partner countries. Such cargoes could be transported, wholly or partly, by vessels flying the flags of the trading partner countries. Other cargoes are shipped irregularly and must necessarily be shipped on tankers which engage in general world-wide trading. However, there would appear to be no valid reason why the transport of both kinds of cargoes should be dominated by oil companies and other shipowners of developed market-economy countries, especially as these countries are becoming increasingly incapable of providing the necessary shipboard labour at economic rates. They maintain their domination only by the device of registering tankers under flags of convenience, thereby obtaining all the advantages of using labour from the world's poorer countries without giving an equitable share in the benefits of shipping operations to the countries of registration, the countries supplying the labour or the countries supplying the cargo.

68. Action is clearly needed to increase the participation of developing countries in the maritime transport of hydrocarbons. It is beyond the scope of the present report, however, to consider the measures which might be taken to this end. The report by the UNCTAD secretariat entitled "Merchant fleet development" and its statistical annexes[13] deal with the whole question of developing countries' participation in shipping and cover specifically participation in liquid and dry bulk transport.

[13] Documents TD/222 and Supp.2, reproduced in the present volume.

AGENDA ITEM 15*

DOCUMENT TD/240

Outline of a substantial new programme of action for the 1980s for the least developed countries

Report by the Secretary-General of UNCTAD

[*Original: English*]
[*13 February 1979*]

CONTENTS

TABLES

I. *Introduction*

1. Despite the growing attention given by the international community to the problems of the least developed countries during the past decade, their economic situation remains exceptionally bleak.[1] A number of special measures in their favour have been provided for in resolutions of the General Assembly and other United Nations bodies and specialized agencies, and in the broader framework of the International Development Strategy for the Second United Nations Development Decade[2] and the Programme of Action on the Establishment of a New International Economic Order.[3] The United Nations Conference on Trade and Development, at its third and fourth sessions, elaborated a programme of special measures in particular detail in resolutions 62 (III) and 98 (IV). However, progress in the implementation of these measures has been slow or lacking in many cases, and in any event has been inadequate to overcome the economic stagnation facing most of these countries. Furthermore, most of the special measures have been formulated in very general terms, specifying types of action which should be undertaken in favour of the least developed countries, but not the rate or extent of such action.

2. While there has been some improvement in the volume of concessional financial flows to the least developed countries, this has been largely offset by declines in the purchasing power of the exports of these countries, so that their import capacity has remained at a very low level. The over-all growth rate of *per capita* GDP for the least developed countries, taken as a group, has been especially weak—well below 1 per cent per year for the past two decades. It is now abundantly clear that the problem of the least developed countries requires far more intensive

* For the agenda, see vol. I, part three, para. 6.

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

[3] General Assembly resolution 3202 (S-VI) of 1 May 1974.

efforts, both nationally and internationally, than have yet been seriously contemplated.

3. Several recent UNCTAD meetings have taken up the question of providing for much more effective action on behalf of the least developed countries during the next decade. The Meeting of Multilateral and Bilateral Financial and Technical Assistance Institutions with Representatives of the Least Developed Countries, in November 1977, recommended:

as part of the preparations for the Third United Nations Development Decade, that UNCTAD, with full participation by other appropriate institutions, undertake studies of the requirements, special measures and other elements of an improved strategy to assist the least developed countries to accelerate their progress during the decade.[4]

4. Accordingly, in paragraph 32 of its resolution 4 (II), adopted at its second session (July 1978), the Intergovernmental Group on the Least Developed Countries requested the Secretary-General of UNCTAD to carry out a series of detailed studies.[5] Moreover, in keeping with the recommendation contained in paragraph 33 of the resolution of the Intergovernmental Group, the Trade and Development Board, in paragraph 4 of its resolution 171 (XVIII) of 17 September 1978, requested the Secretary-General of UNCTAD to convene, late in 1979, a high-level expert group to consider the results of these studies and to make recommendations on a new programme of special measures for the least developed countries during the 1980s.

5. As a prelude to the completion and consideration of these detailed studies, and because of the importance of early political endorsement at the highest level, the Intergovernmental Group, in paragraph 6 of its resolution 4 (II), particularly called for action on this matter by the Conference at its fifth session, as follows:

The challenge before the international community is to implement fully the special measures already adopted and to formulate the concrete special measures which can contribute not only to reversing the present very bleak picture of stagnation and decline but also to providing for accelerated development in... [the least developed] countries. It will thus be important to give full consideration at the fifth session of the Conference to launching a substantial *new programme of action for the 1980s* to which the international community attaches the highest priority and that is coherent, sustained and effective. In this connexion the Intergovernmental Group requests the Secretary-General of UNCTAD to prepare a document which would give an outline for such a new programme of action...[6]

The present document is intended to provide such an outline.

[4] *Official Records of the Trade and Development Board, Eighteenth Session, Annexes,* agenda item 6, document TD/B/681, part two, para. 5.

[5] *Ibid.,* document TD/B/719, annex I. The studies referred to in the resolution are described in TD/B/AC.17/7, para. 52, and comprise, *inter alia,* "over-all assessment of the assistance requirements of least developed countries under various alternative assumptions regarding global and sectoral target growth rates, requirements for social infrastructure and welfare, requirements for directly productive investment, and including the implications of specific basic needs targets"; assessment of resource, production and export potentials and of bottlenecks to their development; assessment of new potentials through regional co-operation arrangements; analysis of proposals for new measures.

[6] This resolution was fully endorsed by the Trade and Development Board in its resolution 171 (XVIII). Furthermore, the General Assembly, in paragraph 7 of its resolution 33/149 of 20 December 1978, welcomed the request made by the Intergovernmental Group in paragraph 6 of resolution 4 (II).

II. *Basic considerations*

6. In paragraph 31 of resolution 4 (II), the Intergovernmental Group also noted that:

so far in the 1970s, there has been a failure to achieve most of the goals of the Second Development Decade for the least developed countries. It is obvious that further great efforts are required fundamentally to alter the basic structure and conditions of the least developed countries so that they can, by the end of the new decade, become less dependent on foreign assistance.

7. With respect to the goals of the International Development Strategy for the Second United Nations Development Decade (as measured by the growth rate from 1970 to 1977), only four of the 30 least developed countries (with 4 per cent of the population of the group) reached the 6 per cent total GDP growth target or the 3.5 per cent target for growth in per capita GDP. Only three countries (with 8 per cent of the population) reached the target rate of 4 per cent for agricultural production. Only three countries (with 3 per cent of the population) reached the manufacturing growth rate target of 8 per cent.

8. Indeed, measured in real per capita terms, the least developed countries as a group (see table 1) stagnated or actually recorded declines between 1970 and 1977 in each of the following key areas: GDP, agricultural production, manufacturing output, export purchasing power, and import volume. Furthermore, for all of these indicators, over-all performance of the least developed countries in the 1970s has failed to improve or has even been weaker than in the 1960s.

9. Table 1 also shows the *per capita* levels and the long-term (1960-1977) *per capita* growth rates for output and trade for the least developed countries, taken as a group, in comparison with all developing countries. While the over-all growth performance of all developing countries is far less than satisfactory, the particular plight of the least developed countries is sharply revealed. In order to underline the urgent need for extraordinary measures for the least developed countries, the long-term growth rates have been projected until 1990 to illustrate the consequence of a continuation of the historical trend—the absolute levels per capita for all of the key variables shown would be little changed from their present starkly low levels.

10. Notwithstanding the over-all lack of progress in terms of general per capita development indicators, there is wide diversity in the performance of individual countries.[7] Indeed, some of the least developed countries have engaged in major efforts at structural change which may not be reflected in growth indicators for some time. There have been significant improvements in most of these countries—in infrastructure, in institutional development, in training, in basic services, etc.—which themselves will improve the prospects for successful implementation of a larger programme.

11. A substantial new programme of action for the least developed countries is an essential feature of the new international economic order, and must be seen as part of the broader development efforts and economic restructuring visualized on behalf of the developing world as a whole. The general measures being pursued on behalf of all

[7] For detailed economic data, see document TD/240/Supp.1, reproduced in the present volume.

TABLE 1

Output and trade: real *per capita* comparisons between least developed countries and all developing countries

	GDP[a]	*Agricultural production*[a]	*Manufacturing output*[a]	*Export purchasing power*[b]	*Import volume*[b]
Growth rate 1970-1977 (percentage per year)					
Least developed	0.8	-1.1	0.9	-2.8	0.4
All developing	3.1	-0.1	4.8	2.6[c]	2.9[c]
Target rate for Second Development Decade[d]	3.5	1.5	6.5	4.5[e]	4.5[f]
Growth rate 1960-1977 (percentage per year)					
Least developed	0.7	-0.7[g]	2.5	-0.6	2.0
All developing	2.9	0.2[g]	4.7[h]	3.2[c]	3.2[c]
Estimated level 1960 (dollars per head)					
Least developed	123	70	8	22	24
All developing	311	89	39	41	51
Actual level 1977 (dollars per head)					
Least developed	139	62	12	20	34
All developing	505	92	88	70[c]	87[c]
Projected level 1990 (at 1960-1977 growth rates) (dollars per head)					
Least developed	152	57	17	18	44
All developing	732	94	161	105[c]	131[c]
Projected increment 1977-1990 (at 1960-1977 growth rates) (dollars per head)					
Least developed	+13	-5	+5	-2	+10
All developing	+227	+2	+73	+35[c]	+44[c]

Source: Document TD/240/Supp.1.

[a] Levels and increment at 1976 prices.

[b] Levels and increment at 1977 prices.

[c] Excluding major petroleum exporters.

[d] The target rates for developing countries have been converted to a per capita basis on the assumption of a 2.5 per cent per annum population growth.

[e] "Somewhat greater" than 4.5 per cent.

[f] "Somewhat less" than 4.5 per cent.

[g] 1961-1977.

[h] 1960-1976.

developing countries will, in varying degrees, bring benefits to the least developed countries also. But the basic structural economic problems facing them are so severe that extraordinary additional measures specially designed to help them, and far more ambitious than past efforts, are plainly needed. Such discrimination in favour of economies which are by far the weakest in the developing world is essential if all developing countries are to benefit fully from a new economic order.

12. The record of stagnation and decline can be reversed, and the fifth session of the Conference should be the clear starting-point for a new international commitment to support the major efforts required. Essentially, there has been a failure so far to respond to the real magnitude of the structural economic problems facing the least developed countries or of the adjustments needed to offset their natural handicaps. Very little has been done to provide support for adequate minimum living standards for their poor. Not only must the past economic pattern of stagnation and decline in the least developed countries be reversed, but also large strides to reach substantially higher income levels must be taken.

13. The least developed countries, while sharing the characteristics of especially low income, lack of skills, and

lack of diversification of their economies, nevertheless differ very greatly in their resource endowments and in the resulting potential for their development. They also differ greatly in the approaches they have so far taken to development. What the new programme must aim to do is to offer each of these countries a uniquely strong opportunity, whatever its development approach, to greatly improve its performance. Furthermore, in view of this diversity, the programme must have a great deal of flexibility to provide the especial support which each of them will need. Indeed, in implementing the new programme, it will be important for each least developed country to assess its development potential in the light of its resource endowment and its choice of development goals and strategy, as a first step in the more ambitious planning which the new programme will make possible.

14. The new programme will require an integrated international approach in support of the needs and priorities of each least developed country. All least developed countries, in seeking to raise very substantially the level of their development aspirations for the 1980s, will need to be able to expand their imports very substantially (and much faster than they are likely to be able to expand their exports), if higher growth and welfare targets are to be reached. Thus, a major expansion of external aid, including both financial and technical assistance, will be necessary. The international community should adopt practical methods (including targets) to ensure the delivery of such assistance, while at the same time helping to pave the way for longer-term external sector viability by full support of export development. In the short and medium term however, the least developed countries must be enabled to have a large and growing excess of imports over exports, and ought to be able to count on this as an essential for more rapid development, at least until they are able to bring about a substantial transformation of their economies.

15. In order that each least developed country may plan and implement the much larger development effort called for by the new programme, it is essential that there be reasonable long-term certainty of greatly expanded assistance flows and other international support measures necessary for the success of these programmes. Without this assurance of the size and continuity of such efforts, it is unrealistic to expect that the greatly expanded internal efforts, indispensable to the success of the programme, can be undertaken.

16. The international community can, whenever the least developed countries concerned so desire, give strong support to the planning efforts required to take advantage of the opportunities under the new programme. But such planning should be especially tailored to have the continuity necessary for success. It will not be enough for high-level advisers to provide a plan without giving full consideration to the need for continuing support for the implementation of the plan. Thus, continuity of advice and advisers will be essential for success.

17. Similarly, the least developed countries should be strongly supported in their efforts to get the best possible expert advice to assist them in negotiations with financial institutions, private investors, etc., particularly regarding large projects for the exploitation of resources.

18. For the programme to be successful, it will be essential to set both national and international norms and objectives and to provide for effective implementation, both by the least developed countries and by the international community. Effective co-ordination arrangements will be needed at both the international and the national level so that the performance of the least developed countries and of donors under the new programme can be monitored, reviewed, and assessed. This will require the creation of new arrangements or the strengthening of existing ones. The form and extent of national arrangements must be the choice of each least developed country, but the international community would need to co-operate fully to ensure effective regular co-ordination at a high level and to provide the assistance necessary to ensure the efficiency of such efforts.

19. The least developed countries exhibit a very wide range of approaches to development, to the respective roles of State ownership and private enterprise, to the degree of openness of their economies, to the nature of land-tenure arrangements, to the scope of efforts toward socio-economic changes, to the question of emphasis on urban versus rural development, to the priority for social development and income distribution questions, etc. Many of the least developed countries are limited in their choice of strategy by geographic constraints (such as small size) or by lack of resources. At the same time, many donor agencies have preferences as to development strategies. It is clear, however, that the choice of strategy must come from the political decision of each least developed country itself. Support under the programme cannot therefore be limited to any one approach.

20. Donors have typically expressed their own strategy preferences in terms of the countries and projects which they choose to support. The efforts of particular donors to limit their assistance to certain objectives or sectors, while beneficial to the extent that they may lead to greater efficiency or expertise through specialization, can nevertheless lead to a failure to provide full support for balanced development and growth, which most least developed countries seek. There needs to be a growing willingness to support development plans in their entirety without attempting to induce the least developed countries to match their own plans with the priority preferences of various donors.

21. The new programme should seek to support reasonable minimum standards of living as part of the over-all development strategy in most of these countries. While support for these needs may be generated out of over-all economic growth, it may also prove desirable and necessary, at least in the short run, to provide direct support to improving the welfare of the poorest (who are typically the great bulk of the population in the least developed countries). Such support should be provided in such a way that it is consistent with the longer-term strategy of achieving economic viability. Thus, direct assistance grants in kind (such as food, fertilizers, etc.) should not frustrate efforts to expand production.

22. A fundamental tenet of the new programme should be that assistance by the international community should be made available to support the strengthened national efforts of individual least developed countries, as well as efforts at collective self-reliance among the least developed

countries and other developing countries. In particular, it should be an essential feature of the new programme that the international community support and assist co-operative arrangements among developing countries which benefit least developed countries, directly or indirectly, so as to enable these latter countries to obtain the fullest possible development benefits from growing regional linkages.

23. The needs of the least developed countries are immediate and urgent. It is therefore not enough to plan now for a substantial new programme for the 1980s. Their current needs are pressing and warrant immediate action. Accordingly, the outline in the section below calls for action in two phases.

III. *Outline of proposals for immediate and longer-term action*

24. In order to provide for major immediate improvements in the welfare of the least developed countries and to lay the basis for much more rapid progress in their fundamental economic situation in the longer term, the fifth session of the Conference, in view of the urgency of the situation, should decide to launch a radically expanded programme, in two phases:

Phase one: A major effort for the short term in the form of an immediate action programme (1979-1981) of greatly expanded assistance for the least developed countries, aimed at providing an immediate upward thrust to their economies and immediate support for the most pressing human needs, and paving the way for much greater longer-term development efforts;

Phase two: A substantial new programme of action for the 1980s for the least developed countries with the objective of transforming their economies, orienting them towards self-sustained development, and enabling them to provide as part of this process at least minimum standards of nutrition, health, housing and education, as well as greatly expanded job opportunities for their citizens, and particularly to the rural and urban poor, by the end of the decade.

A. Immediate action programme (1979-1981)

25. The immediate action programme for the least developed countries, in addition to urgent efforts to accelerate the implementation of special measures already agreed upon, should contain the following:

(*a*) Greatly expanded assistance resources for projects and programmes which can be executed quickly and bring substantial immediate benefits to the least developed countries, including:

(i) Immediate expansion of resources to strengthen efforts to alleviate nutrition, health, education, housing and job problems, and thus to provide immediate support for basic human needs;

(ii) Massive supply of inputs necessary for agricultural and rural development, such as fertilizers, pumps, etc., in order to increase production and productivity, especially of foodstuffs;

(iii) Provision of assistance for overcoming urgent bottlenecks in management, maintenance, repair and physical facilities in order to obtain better use of existing infrastructure and industrial plant;

(iv) Financial and commodity support for activities at the community level which create jobs, including support for local small-scale labour-intensive rural public works projects;

(*b*) Particularly generous emergency help, in grant form or on highly concessional terms, as necessary, to meet balance-of-payments needs, provide disaster relief, etc.

(*c*) Speeding up of approval and implementation of all assistance projects already in the pipeline.

(*d*) Immediate financial support for preparations for the substantial new programme of action for the 1980s, including identification of planning bottlenecks and steps to correct them, survey of resources, feasibility studies and detailed preparation of investment projects, as well as projects to meet human needs.

(*e*) Major immediate efforts to mobilize the skilled personnel (both domestic and foreign) which will be urgently needed to support the planning efforts for the 1980s as well as other aspects of the immediate action programme (1979-1981).

B. New programme of action for the 1980s

26. A substantial new programme of action for the 1980s for the least developed countries will require strong support from the international community for much more comprehensive and ambitious planning efforts by these countries. External financial and technical assistance, as well as other support measures, will be especially needed to cover four main areas: structural change, basic needs, emergency support, and the search for transformational investments.

1. *Structural change*

27. A substantial new programme of action for the 1980s must aim to transform the main structural characteristics of the least developed countries, which are the source of their extreme economic difficulties, as well as to adjust to their natural handicaps. The characteristics to be overcome are:

(*a*) Very low income per head, with the bulk of the population far below a minimum standard of basic needs;

(*b*) A very high proportion of the population in the subsistence sector;

(*c*) Extremely low agricultural productivity and weak agricultural support institutions, necessitating heavy dependence on imports of food;

(*d*) An extremely low level of exploitation of natural resources—minerals, energy, water, etc. (because of lack of knowledge or lack of financing and skills for their development);

(*e*) Very limited development of manufacturing industry;

(*f*) Extremely low level of exports per head of population and, even with aid flows, very limited absolute availabilities of imports;

(*g*) Acute scarcity of skilled personnel at all levels;

(*h*) Heavy dependence on expatriates in trade and other service sectors;

(*i*) Very weak institutional and physical infrastructure of all kinds (including administration, education, health, housing, transport and communications);

(*j*) One or more major geographical or climatological handicaps (in most of the least developed countries), such as land-lockedness, small size and remoteness, drought and desertification, or high exposure to cyclone or flood disaster.

28. Overcoming these structural handicaps will require great and sustained efforts. (One significant approach is considered in paragraph 31.) The size of some of these handicaps is illustrated in table 2.

TABLE 2

Selected structural indicators

	Least developed countries	*All developing countries*
Agriculture		
Share in total GDP (percentage), 1976	44.5	18.2
Agricultural labour force as a percentage of total labour force, 1977	83	61
Output per worker in agriculture (percentage), 1977	196	433
Cereals: yield per hectare as a percentage of world average, 1974-1976	59	71
Per capita trade in food and agricultural raw materials, 1975:		
Exports (dollars)	9.3	24.1[a]
Imports (dollars)	7.1	14.6[a]
Mining and fuels		
Share in total GDP (percentage), 1976	1.1	13.4
Per capita trade in ores and metals, 1975:		
Exports (dollars)	1.0	6.9[a]
Imports (dollars)	1.3	6.3[a]
Per capita trade in fuels, 1975:		
Exports (dollars)	1.1	11.4[a]
Imports (dollars)	2.7	17.0[a]
Per capita energy consumption in kilograms of coal equivalent, 1975	45	149
Manufacturing		
Share in total GDP (percentage), 1976	8.7	17.5
Per capita trade, 1975:		
Exports (dollars)	1.7	18.0[a]
Imports (dollars)	14.5	46.6[a]
Investment		
Gross domestic investment per capita (dollars), 1977[b]	22	86
Government		
Government consumption expenditure per capita (dollars), 1977[b]	15	70
Transport and communications		
Passenger cars per 1,000 population, 1976	1.7	11.9
Telephones per 1,000 population, 1976	2.0	13.9
Education and literacy		
Primary enrolment ratio (percentage), 1975	49	76
Secondary enrolment ratio (percentage), 1975	13	19
Adult literacy rate (percentage), 1974	21	40
Health		
Physicians per 100,000 population, 1974	6.2	14.4
Infant mortality (per 1,000 live births), 1975	146	111

Sources: UNCTAD secretariat estimates, based on data of the Statistical Office of the United Nations; World Bank, *World Development Report, 1978* (Washington, D.C., August 1978) and other international sources.

[a] Excluding major petroleum exporters.

[b] At 1976 prices.

2. *Basic needs*

29. The new programme of action should provide direct and indirect financial support for the improvement of nutrition, health, housing, education, and employment in each of the least developed countries. Such expenditures should accelerate economic progress by providing needed income in rural areas and among the urban poor, and should bring tangible benefits to the poorest and subsistence sectors of the population even before the structural changes needed can take place. Efforts should aim at providing at least minimum standards for the poor as soon as possible, and wherever possible by the end of the decade. As the decade progresses, the better working of the economic system in the least developed countries should itself provide increasing support for such standards.

3. *Emergency support*

30. The new programme of action should make specific provision for emergency assistance to meet unexpected problems as they arise and thus to permit the programme as a whole to go forward, despite fluctuations in export earnings, natural disasters, etc.

4. *The search for transformational investments*

31. Given the very low real levels of *per capita* income in the least developed countries, the prospects for substantial improvements are very remote if these countries are only able to develop at moderate growth rates. However, given the low level of exploitation so far of basic resources, including land, the possibility exists, at least in some of the least developed countries, of very large projects which can by themselves transform the economies from one level of operation to a substantially higher level. Such investments are likely to be very costly but the pay-off, when they are successfully completed, can be extremely large. As a high priority within the new programme of action, the least developed countries should seek to identify such major investment opportunities because of their high potential for leading the way to the substantial transformations that are necessary if more ambitious growth and welfare targets are to be realized, and the international community should give strong support to the efforts to find and finance such projects. There is, for example, scope for such projects in comprehensive agricultural development schemes, tapping unutilized potential, in intensive improvement of major rural districts, in irrigation projects and feasible river basin developments, and in the exploration and development of the mineral and energy resource potential of the least developed countries. Such investments will be particularly useful if they are non-enclave in nature and have maximum linkages with the rest of the economy.

C. Financing the programme

32. The massive efforts needed for the new programme of action for the 1980s will require much more ambitious planning and preparation on the part of the least developed countries themselves, with the full support of the international community. However, such plans can only be drawn up seriously if there is assurance that substantial additional resources are indeed committed to the least developed countries. Thus, serious planning must start with such assurances. Donors should therefore take immediate steps to plan for the provision of the much larger flows that will be required in order to implement the programme; as part of the process of working out the details of the programme, they should provide specific assurances of the size and continuity of such resources during the decade.

33. Donors will need to provide greatly expanded finance for a much wider range of actions than have been typical with such flows in the past, and under far more flexible criteria and conditions. In this connexion, notable progress was made at the Meeting of Multilateral and Bilateral Financial and Technical Assistance Institutions with Representatives of the Least Developed Countries in providing guidelines for more flexible criteria and conditions, in areas such as: expanding the capacity to utilize aid; broadening the types of financing provided; adapting assistance criteria to the specific needs of the least developed countries; providing for much more local and recurrent cost financing, and strengthening assistance administration, management and co-ordination. However, it will be essential for the conclusions and recommendations of the Meeting[8] to be put into practice as soon as possible by both donors and the least developed countries.

34. The much larger financial resources and more favourable supporting policies which are needed to help accelerate the progress of the least developed countries and to help provide for the basic needs of the poor as called for in the immediate action programme (1979-1981) and in the new programme of action for the 1980s, are clearly within the capacity of the international community. The increase in financing can be provided without difficulty, if immediate measures are taken to expand the total official development assistance (ODA) significantly towards meeting the target of 0.7 per cent of GNP.[9]

35. In terms of concessional loans and grants, least developed countries received about $3 billion in 1976, or $15 *per capita.* It should be noted that, because of the very low level of the export earnings of the least developed countries (i.e., export earnings plus total net financial flows from all sources), their total foreign exchange availabilities came to only $31 *per capita* in 1976, one fifth the level of all developing countries taken as a group.

36. Although careful estimates of requirements will need to be made as part of preparations for the action programmes, and reviewed in the light of actual developments in the 1980s, it is reasonable to assume that a major increase of concessional flows in real *per capita* terms will be necessary under the immediate action programme (1979-1981) and at least a tripling of such flows under the new programme of action for the 1980s, if these programmes are to achieve their objectives.

D. The foreign trade sector[10]

37. The large increase in external assistance called for above will make it essential that steps are undertaken "to

[8] *Official Records of the Trade and Development Board, Eighteenth Session, Annexes,* agenda item 6, document TD/B/681, part two.

[9] For a discussion of the mechanisms and methods for achieving this target, see document TD/235, reproduced in the present volume.

[10] This section is based largely on the recommendations of the *Ad Hoc* Group of Experts on the External Trade of the Least Developed Countries (*Official Records of the Trade and Devel-*

(continued on next page)

pave the way for longer-term external sector viability by bull support of export development" (see para. 14 above). Improvements in the foreign trade sector of the least developed countries will require particular efforts in at least three broad areas:

(*a*) Expansion of production, which is a *sine qua non* for all other efforts to expand exports;

(*b*) Specific trade measures, including improvement planning and policies for the foreign trade sector, special adjustment of international commercial policies to raise and stabilize effective demand for products of the least developed countries through especially favourable conditions of access to markets, and strong efforts to improve the array of trade promotion, marketing and trade support institutions and procedures;

(*c*) A major expansion of aid, both financial and technical assistance, supported by international guarantees and subsidies, to help achieve the production and trade measures indicated above.

38. Each least developed country, within the framework of its development plan, should be encouraged to prepare a special plan for its export sector, taking account of the new possibilities opened up by the new programme of action of the least developed countries for the 1980s.

39. The feasibility of integrated package projects for the development of exports, involving co-ordinated efforts ranging from planning and production in the least developed countries to sales in developed countries, should be explored at meetings of donors with particular least developed countries, and the methods for organizing such projects efficiently might be especially considered at the next UNCTAD meeting of donor institutions with representatives of all of the least developed countries. It might prove particularly useful as part of such integrated projects to negotiate specific enlargements of quotas or exemptions from quotas or other trade barriers on the particular export product involved. Serious efforts to assist the least developed countries should encompass promotional schemes which might, at least during a transitional period, involve subsidies for the expansion of particular export flows.

40. Governments and international institutions should purchase some of their supplies in least developed countries as a matter of deliberate policy. The Governments of developed countries should seek incentives to encourage their private importers to provide a long-term stable market for the new export products of the least developed countries, and as part of a broader policy of seeking to give to the least developed countries, and as part of a broader policy of seeking to give to the least developed countries long-term guarantees of a reasonable level of sales.

41. The International Finance Corporation and other public investment banks or corporations might consider establishing special windows devoted particularly to the least developed countries to finance export projects and to ensure the sale of their products in the markets of more developed countries. Special guarantee arrangements by developed countries might be needed to offset the possibly substantial risks of such investments, and thus make such an activity viable.

42. Several preference-giving developed countries have extended special concessions under their GSP schemes to least developed countries, and all other preference-giving countries should do the same. Furthermore, rules of origin and other criteria for GSP schemes should be made more favourable and simplified to make it easier for least developed countries to qualify and gain larger benefits.[11] Finally, other developing countries should grant all possible concessions on tariff and non-tariff barriers on imports from the least developed countries on a non-reciprocal basis.

43. In view of the importance of improving foreign trade as part of the new programme of action, there is a need to strengthen the UNCTAD advisory service in the field of planning and policies for the foreign economic sector of the least developed countries. The Conference may wish to recommend suitable ways of financing the service, keeping in mind the need for continuity.[12] In this connexion, the *Ad Hoc* Group of Experts on the External Trade of the Least Developed Countries recommended that UNCTAD should establish as soon as possible advisory services in the field of planning and policy for procurement and supply, particularly for the least developed countries, with financial support from multilateral and bilateral sources.[13]

E. Economic co-operation among developing countries

44. Co-operation among developing countries can play a key role in supporting the new programme of action for the least developed countries by providing them with major opportunities for development through growing links with other developing countries. Such efforts should be strongly supported by the international community and should include the following elements:[14]

(*a*) Any preferential arrangements among developing countries in the field of trade (tariff and non-tariff barriers) should provide for special and more favourable treatment for the least developed countries;

(*b*) Within regional co-operation schemes among developing countries, arrangements should be made: (i) for the establishment of multinational ventures in the least developed countries, with a guaranteed regional market; (ii) for joint exploitation of common river-basin or other resource potentials, with special support provisions for participating least developed countries; (iii) for regional and subregional training programmes, with special attention to the needs of the least developed countries in a regional grouping;

(*Foot-note 10 continued.*)

opment Board, Tenth Special Session, Annexes, agenda item 3, document TD/B/735). See also TD/B/AC.17/7 (referred to in foot-note 1 above), sect. III, entitled "Commercial policy measures".

[11] See document TD/232, paras. 88 and 89, reproduced in the present volume.

[12] See also the terminal report of the Exploratory Mission on Foreign Trade Policy and Planning in the Least Developed Countries (UNCTAD/RD/139), paras. 87-89; and TD/B/AC.17/7, para. 46.

[13] See *Official Records of the Trade and Development Board, Tenth Special Session, Annexes,* agenda item 3, document TD/B/735, para. 118.

[14] This section is based largely on the recommendations in the report of the meeting of a High-level Group of Experts on Economic Co-operation among Developing Countries (UNCTAD/ECDC/TA/4).

(*c*) Developing countries in a position to do so should substantially expand their flows of concessional financial and technical assistance to the least developed countries;

(*d*) Developed countries and international institutions should assist the flow of technical assistance and assistance in kind from other developing countries to the least developed countries by helping to offset the foreign exchange costs of such flows; they should also give especially strong support to regional co-operation arrangements which include significant benefits to least developed countries.

F. Steps for the planning and approval of the new programme of action for the 1980s

45. A substantial new programme of action for the 1980s on behalf of the least developed countries requires, in the first place, a global planning effort, aimed at launching the programme and mobilizing international support. This should be paralleled by commencement, as soon as possible, of planning efforts for a greatly expanded programme by each least developed country itself, with full support from bilateral and multilateral assistance institutions to complement each country's own more intensive work in the identification, preparation and implementation of such a major new programme, and reflecting its own specific needs and priorities.

46. The stages of the global planning effort should include:

(*a*) The launching of the immediate action programme (1979-1981) by decision of the fifth session of the Conference;

(*b*) Endorsement of a new programme of action for the 1980s by decision of the fifth session of the Conference, with details to be worked out as indicated below;

(*c*) Studies being undertaken by the UNCTAD secretariat of the requirements, special measures and other detailed elements of an improved strategy to assist the least developed countries[15] should, *inter alia,* be geared specifically to providing detailed recommendations for the operation of the substantial new programme of action for the 1980s;

(*d*) As called for in Board resolution 171 (XVIII), the results of these detailed studies are to be considered by a group of high-level experts to be convened by the Secretary-General of UNCTAD late in 1979;

(*e*) The recommendations of the group of high-level experts, as well as the background studies, should be reviewed by the Intergovernmental Group on the Least Developed Countries at its third session, convened especially for the purpose, early in 1980, and by the Trade and Development Board, as part of the preparations for the third United Nations Development Decade.[16] Indeed, in view of the special importance of the actions to be taken, the Conference might wish to consider requesting the General Assembly to convene a special United Nations Conference on the Least Developed Countries which might, in the light of the above detailed work, launch the new programme of action for the 1980s and provide a unique occasion for the pledging of support;

(*f*) This detailed work should lead to the adoption of precise recommendations to meet the objectives of the new programme of action for the 1980s with commitments by the international community, and particularly developed countries and international institutions, as well as the least developed countries themselves with respect to: (i) targets for growth; (ii) external financial requirements; (iii) priority areas for support; (iv) institutional arrangements; and (v) provision for reviews of progress and other co-ordination arrangements,[17] as well as (vi) special provisions in support of co-operative arrangements between least developed countries and other developing countries;[18]

(*g*) The Conference may wish to request the Secretary-General of UNCTAD to take primary responsibility, with full participation by other appropriate institutions, for the detailed arrangements at the global level for the implementation, co-ordination, and monitoring of progress under the immediate action programme (1979-1981) and the new programme of action for the 1980s for the least developed countries.

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[15] These studies, which are being undertaken as called for in resolution 4 (II) of the Intergovernmental Group on the Least Developed Countries, are described in para. 52 of TD/B/AC.17/7, which is summarized in foot-note 4 above.

[16] This is in line with the recommendation of the Intergovernmental Group on the Least Developed Countries, in its resolution 4 (II), para. 33.

[17] See para. 18 above. It will also be desirable for bilateral and multilateral donor agencies to co-ordinate their efforts with the objective of ensuring that at least an adequate minimum flow of assistance is provided to each least developed country. Specific arrangements for this purpose should be worked out as part of the process of specifying detailed institutional arrangements for the new programme of action for the 1980s.

[18] As part of the preparations for the new programme of action for the 1980s for the least developed countries, there is also a need for a meeting of the developing countries to consider the various measures they might provide in support of this programme in the context of subregional, regional and interregional co-operative arrangements amongst themselves. Progress and problems in this regard might be reviewed at subsequent meetings of this type. The Conference may wish to request the Secretary-General of UNCTAD to convene such meetings.

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Basic data on the least developed countries compiled by the UNCTAD secretariat

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NOTE. Additional tables giving statistical information on the external trade of the least developed countries may be found in the report of the *Ad hoc* Group of Experts on the External Trade of the Least Developed Countries (*Official Records of the Trade and Development Board, Tenth Special Session, Annexes,* agenda item 2, document TD/B/735), annex III, tables 1 to 7.

Explanatory notes

The definition of developing countries and territories used in this document has been adopted for purposes of statistical convenience only, and follows that in the *Handbook of international trade and development statistics, Supplement 1977* (United Nations publication, Sales No. E/F.78.II.D.1).

The 25 countries originally identified as least developed countries (also referred to as "hard-core least developed countries") by the United Nations General Assembly in December 1971 (resolution 2768 (XXVI)) were: Afghanistan, Benin, Bhutan, Botswana, Burundi, Chad, Ethiopia, Guinea, Haiti, Lao People's Democratic Republic, Lesotho, Malawi, Maldives, Mali, Nepal, Niger, Rwanda, Sikkim, Somalia, Sudan, Uganda, United Republic of Tanzania, Upper Volta, Samoa, and Yemen Arab Republic. In December 1975 (resolution 3487 (XXX)), four countries (Bangladesh, Central African Empire, Democratic Yemen and Gambia) were added to the original list, and in December 1977 (resolutions 32/92 and 32/99) two countries (Cape Verde and the Comoros) were added. The Group of least developed countries thus now comprises a population (1977 estimate) of 257.7 million, or 12.3 per cent of the population of all developing countries.

In some tables the category "developing countries, excluding major petroleum exporters" is used. In this case "major petroleum exporters" is defined as those countries for which petroleum and petroleum products accounted for more than 50 per cent of their total exports in 1974, namely, Algeria, Angola, Bahrain, Brunei, Ecuador, Gabon, Indonesia, Iran, Iraq, Kuwait, Libyan Arab Jamahiriya, Nigeria, Oman, Qatar, Saudi Arabia, Trinidad and Tobago, United Arab Emirates and Venezuela.

Annual rates of growth and change refer to compound rates.

Exports are valued f.o.b. and imports c.i.f.

TABLE 1

Per capita GDP and population: levels and growth in the least developed countries

Country	*Per capita GDP (dollars)* (At 1970 prices) 1970	1977	Increment Changement	(At 1976 prices) 1970	1977	Increment Changement	*Average annual growth rates of per capita real product (percentage)* 1960-1970[b]	1970-1977	*Projected per capita GDP in 1990[a] (dollars) (At 1976 prices)* A	B	C	*Population* (Millions) 1977	Average annual growth rates (percentage) 1970-1977
Afghanistan	100	109	9	124	135	11	0.0	1.2	135	158	211	17.45	2.3
Bangladesh	81	89	8	82	90	8	1.3	1.3	106	106	141	82.71	2.4
Benin	81	80	-1	177	175	-2	1.4	-0.2	210	171	274	3.29	2.7
Bhutan	45	..	..	..	75[c]	..	..	..	..	..	117	1.23	2.2
Botswana	143	324	181	198	449	251	1.7	12.4	559	2 052	702	0.71	3.8
Burundi	66	67	1	80	82	2	-5.0	0.2	42	84	128	3.97	2.4
Cape Verde	114	81	-33	330	235	-95	-1.0	-4.7	206	126	368	0.31	2.1
Central African Empire	127	101	-26	273	218	-55	-0.9	-3.2	194	143	341	1.87	2.2
Chad	74	78	4	115	122	7	-2.1	0.8	93	135	191	4.20	2.1
Comoros	114	93	-21	267	220	-47	4.1	-2.8	371	152	344	0.37	2.5
Democratic Yemen	116	131	15	150	169	19	-5.4	1.7	82	210	264	1.80	2.7
Ethiopia	72	70	-2	104	102	-2	1.7	-0.4	127	97	160	28.98	2.6
Gambia	101	118	17	181	212	31	1.6	2.3	261	285	332	0.55	2.6
Guinea	82	84	2	180	185	5	-1.1	0.4	160	195	289	4.65	2.4
Haiti	97	118	21	205	249	44	-0.6	2.8	230	357	389	4.75	1.6
Lao People's Democratic Republic	69	58	-11	119	100	-19	2.1	-2.5	131	72	156	3.46	2.2
Lesotho	74	113	39	93	142	49	0.8	6.2	157	310	222	1.08	2.2
Malawi	72	100	28	103	143	40	2.1	4.8	187	263	224	5.53	2.6
Maldives	88	..	..	..	121[c]	..	..	..	..	..	189	0.14	2.1
Mali	55	59	4	87	93	6	-2.1	0.9	71	104	145	5.99	2.5
Nepal	77	73	-4	105	99	-6	0.0	-0.8	99	89	155	13.14	2.3
Niger	100	106	6	162	173	11	2.5	0.9	238	194	271	4.86	2.7
Rwanda	60	67	7	82	91	9	2.0	1.5	118	110	142	4.37	2.6
Samoa	211	..	..	..	350[c]	..	..	..	..	..	547	0.15	1.0
Somalia	79	102	23	131	170	39	-0.9	3.7	158	273	266	3.35	2.6
Sudan	157	166	9	263	279	16	-0.4	0.8	265	309	436	16.95	2.5
Uganda	135	110	-25	318	259	-59	1.9	-2.9	331	177	405	12.35	3.3
United Republic of Tanzania	97	109	12	156	176	20	5.0	1.7	332	219	275	16.09	2.7
Upper Volta	59	49	-10	89	74	-15	2.6	-2.6	103	53	116	6.32	2.3
Yemen	79	96	17	224	270	46	1.2	2.8	315	387	422	7.08	3.0
TOTAL ABOVE	89	94	5	133	139	6	0.9	0.8	156	154	217	257.70	2.5
All developing countries	220	272	52	406	505	99	2.7	3.1	714	751	790	2 093.46	2.5

Source: UNCTAD secretariat calculation, based on data from the Statistical Office of the United Nations, the World Bank and other international and national sources.

[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 of *per capita* real product in the period 1970-1977; 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.

[b] Trend rates.

[c] 1976.

TABLE 2

Annual average growth rates of total and *per capita* real GDP at market prices in the least developed countries, 1960-1977

Country	Total real product							*Per capita* real product				
	1960-1970[a]	*1970-1977*	*1970-1973*	*1973-1974*	*1974-1975*	*1975-1976*	*1976-1977*	*1970-1973*	*1973-1974*	*1974-1975*	*1975-1976*	*1976-1977*
Afghanistan	2.5	3.7	1.4	7.7	3.0	6.3	5.0	-1.1	5.1	0.5	3.7	2.5
Bangladesh	3.8	3.7	0.2	3.2	13.4	1.7	7.8	-2.1	0.8	10.7	-0.7	5.3
Benin	4.1	2.5	5.3	-0.9	6.2	-5.4	2.5	2.5	-3.5	3.4	-7.9	-0.2
Bhutan	..	..	..	..	..	..	..	..	..	..	..	..
Botswana	5.6	16.7	41.8	-8.2	1.2	3.0	7.6	36.7	-11.5	-2.5	-0.8	3.7
Burundi	-2.7	2.6	0.4	7.1	-1.1	5.4	6.1	-1.9	4.6	-3.5	2.9	3.6
Cape Verde	1.1	-2.7	-8.9	-10.2	7.3	6.4	6.0	-10.7	-12.0	5.1	4.2	3.8
Central African Empire	1.3	-1.0	-3.7	14.3	-8.1	-4.0	3.2	-5.7	11.8	-10.1	-6.1	1.0
Chad	0.0	2.9	-3.3	21.1	3.4	4.7	3.2	-5.2	18.6	1.3	2.5	1.1
Comoros	6.7	-0.3	3.7	11.6	-11.7	-12.3	1.4	1.2	8.8	-13.8	-14.4	-1.0
Democratic Yemen	-2.8	4.5	2.7	8.6	6.7	4.0	4.0	0.0	5.8	3.9	1.2	1.3
Ethiopia	4.3	2.2	4.0	1.5	0.1	-1.0	3.1	1.3	-1.1	-2.4	-3.5	0.5
Gambia	4.2	4.9	9.4	0.4	-0.4	5.7	1.2	6.6	-2.2	-2.9	3.0	-1.3
Guinea	1.3	2.8	3.2	7.8	-5.2	2.7	5.0	0.8	5.3	-7.5	0.3	2.5
Haiti	1.0	4.5	4.4	4.3	2.7	10.0	1.3	2.8	2.7	1.0	8.3	-0.3
Lao People's Democratic Republic	4.3	-0.3	1.9	1.6	0.0	-2.1	-7.2	-0.3	-0.5	-2.2	-4.2	-9.2
Lesotho	3.0	8.5	15.7	-1.7	5.7	2.9	7.2	13.2	-3.9	3.4	0.7	4.9
Malawi	4.8	7.5	10.7	4.2	6.0	5.4	4.9	7.9	1.6	3.3	2.7	2.2
Maldives	..	..	..	..	..	..	..	..	..	..	..	..
Mali	0.3	3.4	0.8	0.5	12.7	4.8	4.4	-1.7	-2.0	9.9	2.3	1.8
Nepal	2.3	1.5	0.5	6.3	1.5	6.0	-4.6	-1.8	3.9	-0.8	3.6	-6.7
Niger	5.3	3.6	-3.6	15.9	-2.4	17.6	7.4	-6.1	12.9	-5.0	14.5	4.6
Rwanda	4.7	4.1	2.6	1.1	12.3	5.1	2.9	0.0	-1.4	9.5	2.5	0.3
Samoa	..	..	..	..	..	..	..	..	..	..	..	..
Somalia	1.7	6.4	9.7	3.8	5.8	3.5	3.0	6.9	1.2	3.2	0.9	0.4
Sudan	2.1	3.4	9.5	-2.0	1.6	5.9	-9.0	6.8	-4.4	-0.9	3.3	-11.2
Uganda	5.3	0.3	1.0	0.2	-2.2	-0.4	1.5	-2.3	-3.0	-5.3	-3.5	-1.7
United Republic of Tanzania	7.8	4.5	4.6	2.5	4.6	5.2	5.0	1.9	-0.2	1.8	2.4	2.2
Upper Volta	4.9	-0.4	-0.2	2.1	1.7	4.5	-9.5	-2.5	-0.2	-0.6	2.1	-11.5
Yemen	4.2	5.8	4.0	16.9	3.3	6.3	3.0	1.0	13.4	0.3	3.2	0.0
TOTAL ABOVE	3.4	3.3	3.0	3.4	4.9	3.5	2.7	0.5	0.8	2.4	1.0	0.2
All developing countries	5.2	5.7	6.4	5.7	4.2	5.3	5.6	3.8	3.1	1.7	2.8	3.0

Source: UNCTAD secretariat calculations, based on data from the Statistical Office of the United Nations and other international and national sources.

[a] Trend rates.

TABLE 3. — **The agricultural sector in**

Country	*Per capita GDP originating in the agricultural sector in dollars 1976*	*Agricultural labour force as percentage of total labour force 1977*	*Percentage share of agriculture in total GDP 1976*
Afghanistan	66	79	50[b]
Bangladesh	43	85	51
Benin	67	47	38
Bhutan	..	94	..
Botswana	143	82	33
Burundi	28	84	35
Cape Verde	79	58	35
Central African Empire	71	89	33
Chad	59	86	49
Comoros	104	65	47
Democratic Yemen	35	61	21
Ethiopia	46	81	46
Gambia	129	79	60
Guinea	40	82	22
Haiti	110	69	44[c]
Lao People's Democratic Republic	..	75	..
Lesotho	49	86	34
Malawi	60	86	43
Maldives	..	..	..
Mali	35	88	38
Nepal	67	93	63
Niger	73	90	44
Rwanda	54	91	59[a]
Samoa	165	67[d]	47[e]
Somalia	47	82	28[b]
Sudan	122	79	39[a]
Uganda	129	83	49
United Republic of Tanzania	69	83	40
Upper Volta	29	83	34
Yemen	95	76	35
TOTAL ABOVE	62	83	44
All developing countries	92	61	18

Source: UNCTAD secretariat calculations, based on data from FAO, the Economic Commission for Africa and the World Bank.

the least developed countries, 1961-1977

Average annual growth rates of agricultural production (percentage)							*Average annual growth rates of food production (percentage)*						
1961-1970[a]	*1970-1977*[a]	*1970-1973*	*1973-1974*	*1974-1975*	*1975-1976*	*1976-1977*	*1961-1970*[a]	*1970-1977*[a]	*1970-1973*	*1973-1974*	*1974-1975*	*1975-1976*	*1976-1977*
1.6	4.0	3.9	2.7	3.5	3.4	−2.5	1.6	3.9	4.2	2.7	1.8	5.2	−2.5
3.1	1.7	−0.3	−5.9	10.5	−3.8	7.9	3.2	1.9	0.3	−4.9	12.4	−6.4	7.8
3.8	0.4	−1.3	−1.0	−12.2	19.8	9.7	3.4	0.6	−1.6	1.0	−11.1	15.9	10.8
2.3	2.1	2.3	2.8	2.7	0.9	0.9	2.3	2.1	2.3	2.8	1.8	1.8	0.9
2.8	4.7	6.8	7.1	−1.7	12.7	−2.3	2.7	4.7	6.8	8.0	−2.5	12.7	−2.3
2.7	1.9	3.8	0.9	−3.5	2.7	2.7	2.8	2.0	3.8	0.0	−1.8	1.8	2.7
..	..	..	..	..	..	..	..	..	..	..	..	..	..
1.4	2.2	3.2	3.6	−3.5	2.7	2.7	0.8	2.4	4.2	1.8	−0.9	1.8	3.4
0.4	0.5	−5.4	14.6	4.3	−2.0	3.1	−0.3	−0.6	−6.9	12.7	1.1	1.1	2.2
..	..	..	..	..	..	..	..	..	..	..	..	..	..
1.2	4.0	7.7	4.3	4.2	−1.6	0.0	1.9	4.5	8.0	4.3	5.0	0.8	−0.8
2.4	0.7	−1.0	2.0	2.0	2.9	−2.8	2.3	0.7	−0.3	1.0	2.0	1.9	−1.9
3.7	1.2	−0.3	15.5	1.8	0.0	−12.3	3.4	1.2	−0.3	15.5	1.8	0.0	−12.3
2.0	0.1	−3.8	2.2	3.3	7.4	0.0	2.4	0.2	−3.8	3.4	3.3	7.4	0.0
1.3	1.3	1.6	2.9	0.0	0.0	1.9	1.9	1.4	1.6	2.9	−0.9	2.8	0.9
6.7	1.3	1.0	3.8	1.9	0.0	−5.5	6.7	1.4	1.0	3.8	1.8	0.0	−5.4
0.7	2.1	5.5	−12.2	−7.9	29.0	−8.3	0.7	2.3	7.4	−12.5	−11.4	33.3	−10.5
4.4	3.6	8.7	0.0	−1.7	7.8	5.6	4.3	2.7	8.8	0.9	−6.0	9.1	0.8
..	..	..	..	..	..	..	..	..	..	..	..	..	..
2.1	0.9	−11.1	8.5	22.1	8.5	1.0	1.9	0.4	−11.5	8.6	19.7	7.7	1.0
0.9	1.1	1.6	0.0	2.8	−0.9	−4.6	0.7	1.2	1.6	0.9	2.8	−0.9	−5.5
2.6	0.5	−10.9	22.1	−6.0	35.9	−6.6	2.6	0.6	−10.4	20.3	−6.0	37.2	−7.5
4.6	3.6	1.0	0.0	13.3	5.9	1.6	4.4	3.4	1.0	−1.9	13.6	6.0	1.6
−2.8	1.3	−1.0	2.1	1.0	7.2	5.8	−3.0	1.1	−1.0	0.0	2.1	7.3	5.8
3.1	0.7	1.3	−9.6	5.3	9.1	1.9	3.1	0.7	1.3	−9.6	5.3	9.1	1.9
4.2	2.3	1.0	18.4	−0.8	−11.6	11.2	3.8	4.0	3.2	12.7	4.0	−3.9	3.2
3.5	0.8	1.6	−5.7	1.0	2.0	2.9	3.1	2.0	2.0	0.9	0.0	4.7	3.6
3.1	1.3	−0.6	−2.9	4.0	4.8	3.7	3.2	1.7	0.0	−1.9	4.9	3.7	4.5
3.3	1.2	−4.4	11.1	10.0	−0.9	−7.3	3.2	1.1	−4.1	12.2	9.9	−3.6	−7.5
−1.6	3.0	11.7	−8.5	17.8	−6.3	−1.7	−1.6	2.9	11.4	−9.5	19.0	−7.2	−0.9
2.5	1.7	0.7	−0.1	5.2	−0.1	2.6	2.5	2.0	1.2	0.2	5.8	−0.1	2.1
2.7	2.6	1.6	2.8	4.6	1.8	2.6	2.9	2.9	1.6	2.8	5.5	2.6	2.5

[a]Trend rates. [b] 1975. [c] 1974. [d] 1971. [e] 1972.

TABLE 4

The manufacturing sector in the least developed countries, 1960-1977

Country	*Per capita GDP originating in the manufacturing sector in dollars 1976*	*Percentage share in GDP, 1976*	*Manufacturing* — *Annual average growth rates of real GDP arising in manufacturing (percentage)*						
			1960-1970	*1970-1977*	*1970-1973*	*1973-1974*	*1974-1975*	*1975-1976*	*1976-1977*
Afghanistan	16	12[a]	5.8[b]	..	..	..	..	..	..
Bangladesh	7	8	3.9	4.5	1.4	−1.3	17.9	10.0	1.8
Benin	16	9	9.9	5.9	3.0	8.2	27.6	−2.5	1.5
Bhutan	..	..	..	..	..	..	..	..	..
Botswana	22	5	7.3	9.5	8.4	10.2	18.8	4.7	8.0
Burundi	5	6	7.6	6.6	4.3	14.6	−2.6	15.3	7.2
Cape Verde	5	2	9.6	0.6	3.5	−9.8	2.4	−4.5	6.3
Central African Empire	43	20	8.2	−3.6	−7.8	24.6	−2.0	−18.8	−0.3
Chad	11	9	6.0	4.2	4.5	8.3	7.4	−1.0	1.4
Comoros	20	9	11.6	2.9	3.2	9.4	−1.7	0.0	2.9
Democratic Yemen	12	7	..	12.3[e]	9.4	18.2	15.4	..	..
Ethiopia	9	9	9.1	1.5	3.6	−0.4	−2.5	−2.0	4.7
Gambia	4	2	7.2	−1.9	15.3	−39.2	−7.4	2.7	3.6
Guinea	13	7	3.5	0.3	6.6	5.0	−2.9	−21.2	4.9
Haiti	28	11[d]	0.6	6.5[e]	6.3	9.8	4.8	5.7	..
Lao People's Democratic Republic	..	..	..	..	..	..	..	..	..
Lesotho	3	2	4.1	4.4	6.3	0.0	4.7	3.1	3.8
Malawi	18	13	17.0	8.2	11.9	5.0	13.2	−2.9	7.5
Maldives	..	..	..	..	..	..	..	..	..
Mali	10	11	7.3	2.5	7.5	−15.4	7.8	0.3	4.6
Nepal	11	10[a]	..	..	..	..	..	..	..
Niger	25	15	8.1	1.2	8.7	−22.1	7.5	0.5	0.9
Rwanda	4	4[d]	14.0	5.0	11.6	−8.5	3.8	1.2	5.6
Samoa	11	3[f]	..	..	..	..	..	..	..
Somalia	12	7[a]	9.2	7.6	14.0	0.0	6.1	2.5	3.7
Sudan	28	9[a]	5.5	4.5	3.3	−1.4	12.3	6.9	4.6
Uganda	16	6	4.4	−5.9	−0.6	1.1	−13.1	−14.6	−11.1
United Republic of Tanzania	15	9	18.2	5.4	7.5	1.3	0.3	6.2	7.8
Upper Volta	11	13	7.9	−2.7	−1.3	−7.5	8.6	1.1	−15.6
Yemen	14	5	..	..	..	..	..	..	..
TOTAL ABOVE	12	9	6.3	3.4	3.8	0.8	8.0	3.4	2.8
All developing countries	88	17	7.2	7.4[e]	9.1	4.6	3.7	..	..

Source: UNCTAD secretariat calculations, based on data from the Statistical Office of the United Nations, the Economic Commission for Africa and the World Bank.

[a] 1975. [b] 1962-1969. [c] 1970-1975. [d] 1974. [e] 1970-1976. [f] 1972.

TABLE 5

Investment in the least developed countries, 1960-1977

Country	*Gross domestic investment*								
			Real growth rates (annual average) (percentage)						
	Per capita in dollars	*Percentage share in GDP 1976*	*1960-1970*	*1970-1977*	*1970-1973*	*1973-1974*	*1974-1975*	*1975-1976*	*1976-1977*
Afghanistan	18	14	0.1	12.9[a]	−2.3	28.6	15.6	49.0	..
Bangladesh	12	14[b]	6.0	−4.4[a]	−18.9	27.7	10.2	1.3	..
Benin	32	18	3.1	1.7	3.2	0.9	8.2	−12.1	6.6
Bhutan	..	..	..	..	..	..	..	..	..
Botswana	182	42	16.0	28.9	86.7	−13.2	−6.6	5.3	6.5
Burundi	9	11	0.4	14.3	7.0	3.1	38.8	31.1	10.6
Cape Verde	34	15	3.3	0.9	17.2	−35.6	−16.4	−3.7	27.2
Central African Empire	48	22[b]	3.2	1.7	2.7	3.1	1.9	2.5	−3.4
Chad	18	15	1.8	2.8	−14.5	51.6	−11.8	−6.4	4.7
Comoros	44	20	16.2	−3.9	7.9	19.6	−24.0	−39.5	9.7
Democratic Yemen	40	24[b]	..	38.3[c]	67.8	25.6	−15.0	..	..
Ethiopia	10	10	4.2	−6.8	13.6	8.1	−21.4	8.4	2.5
Gambia	28	13[b]	3.3	3.6	−5.1	23.9	4.6	12.5	2.5
Guinea	22	12[b]	3.8	5.6	3.8	2.8	23.9	−0.2	3.4
Haiti	30	12	4.5	10.4[c]	12.1	7.4	8.2	..	..
Lao People's Democratic Republic	..	..	..	..	..	..	..	..	..
Lesotho	20	14	22.8	8.5	40.6	−39.6	−0.2	0.5	5.1
Malawi	22	16	8.9	0.7	0.2	−4.8	22.7	−27.1	23.0
Maldives	..	..	..	..	..	..	..	..	..
Mali	17	19	6.0	−0.2	−3.4	7.4	−1.3	−6.0	9.9
Nepal	10	9[b]	..	..	..	..	..	..	..
Niger	26	16[b]	6.0	5.6	14.6	−4.5	−17.3	19.3	3.0
Rwanda	9	10[d]	5.9	17.0	16.3	12.0	75.4	−3.8	1.0
Samoa	77	22[e]	..	..	..	..	..	..	..
Somalia	57	34[b]	3.3	11.6	12.7	18.4	20.6	2.6	2.9
Sudan	57	18[b]	4.6	11.6	34.0	2.2	5.0	−11.5	−5.4
Uganda	16	6	9.3	−7.5	−10.9	11.4	−24.3	−5.0	2.4
United Republic of Tanzania	36	21	13.9	2.7	−0.4	10.6	7.7	−2.4	5.0
Upper Volta	13	16	2.5	13.6	41.5	11.4	8.3	−1.4	6.4
Yemen	95	35	..	..	..	..	..	..	..
TOTAL ABOVE	22	16	6.0	3.3	4.1	8.1	3.6	−1.0	2.0
All developing countries	83	17	6.6	9.5[a]	8.9	10.9	11.2	..	..

Source: UNCTAD secretariat calculations, based on data from the Statistical Office of the United Nations, the Economic Commission for Africa and the World Bank.

[a] 1970-1976. [b] 1975. [c] 1970-1975. [d] 1974. [e] 1972.

TABLE 6

Exports and imports: basic comparisons

Country	*Exports in 1977*			*Increment in purchasing power of exports in constant 1977 dollars, per capita*			*Imports in 1977*			*Increment in volume of imports in constant 1977 dollars per capita*		
	Value (millions of dollars)	*Percentage of GDP in 1977*	*Exports per capita (dollars)*	*1960-1970*	*1970-1977*	*1976-1977*	*Value (millions of dollars)*	*Percentage of GDP in 1977*	*Imports per capita (dollars)*	*1960-1970*	*1970-1977*	*1976-1977*
Afghanistan	327	11.3	18.7	0.4	6.7	2.7	538	18.5	30.8	−2.6	15.1	4.3
Bangladesh	451	5.8	5.5	3.0	−11.9	−0.3	1 181	15.1	14.3	8.6	−11.1	3.8
Benin	57	9.4	17.3	6.9	−9.5	−1.5	220	36.2	66.9	18.3	14.7	2.2
Bhutan	..	..	..	..	..	..	..	..	..	..	..	..
Botswana	200	58.8	281.7	25.0	193.8	4.9	220	64.7	309.9	138.4	115.1	−19.1
Burundi	92	27.1	23.2	7.4	5.8	7.7	91	26.8	22.9	2.5	7.6	6.6
Cape Verde	2	2.6	6.5	−24.6	−12.0	−0.2	51	66.2	164.5	31.0	27.5	−2.2
Central African Empire	82	19.0	43.9	18.7	2.6	9.5	63	14.6	33.7	8.8	−11.3	2.0
Chad	70	12.9	16.7	3.8	−0.3	0.0	140	25.8	33.3	8.1	−1.3	2.2
Comoros	9	12.2	24.3	4.2	−20.1	−8.0	18	24.3	48.6	28.6	−29.2	3.4
Democratic Yemen	200	62.3	111.1	−269.9	−117.5	1.4	600	186.9	333.3	239.6	18.3	125.3
Ethiopia	333	10.5	11.5	1.4	−0.7	0.9	352	11.1	12.1	4.8	−5.1	−1.4
Gambia	48	38.7	87.3	21.7	4.7	16.9	78	62.9	141.8	24.1	54.8	−8.2
Guinea	258	28.4	55.5	−11.7	30.8	3.4	173	19.1	37.2	−13.4	4.8	6.5
Haiti	143	11.4	30.1	−5.4	8.4	5.9	358	28.6	75.4	−6.3	47.1	27.2
Lao People's Democratic Republic	15	4.1	4.3	4.4	−1.1	0.8	54	14.8	15.6	68.1	−72.9	2.9
Lesotho	28	17.2	25.9	2.0	10.8	0.4	160	98.2	148.1	24.8	68.5	4.7
Malawi	195	24.3	35.3	11.4	6.7	4.0	235	29.3	42.5	14.9	1.5	−0.7
Maldives	5	31.3[a]	35.7	−3.9	−27.9	7.1	4	25.0[a]	28.6	−80.7	−16.9	7.2
Mali	124	21.1	20.7	1.5	6.6	4.8	159	27.0	26.5	−6.6	6.3	−1.6
Nepal	113	8.2	8.6	8.3	−1.3	−0.1	180	13.1	13.7	9.5	−3.5	−0.3
Niger	165	18.6	34.0	5.4	16.8	3.1	150	16.9	30.9	17.1	−0.2	1.7
Rwanda	92	21.6	21.1	10.0	6.7	0.6	114	26.8	26.1	6.6	9.3	0.0
Samoa	13	22.8[a]	86.7	−75.1	1.0	33.4	41	71.9[a]	273.3	42.9	44.7	53.3
Somalia	100	16.7	29.9	−3.5	5.2	1.7	299	49.9	89.3	0.4	53.1	27.3
Sudan	661	13.6	39.0	−1.0	−9.5	1.8	1 060	21.7	62.5	−7.5	8.8	−3.3
Uganda	561	16.6	45.4	12.0	−18.6	12.7	250	7.4	20.2	8.8	−18.8	4.8
United Republic of Tanzania	504	16.9	31.3	4.1	−16.1	−2.6	748	25.1	46.5	14.9	−11.8	2.3
Upper Volta	55	11.2	8.7	5.2	1.6	−0.7	209	42.4	33.1	7.2	14.7	7.5
Yemen	11	0.5	1.6	−1.5	0.4	0.3	1 040	51.4	146.9	6.4	134.1	82.1
TOTAL ABOVE	4 914	13.0	19.1	2.0	−4.7	1.4	8 786	23.2	34.3	5.8	1.9	6.1
All developing countries[b]	132 660	17.0	73.1	12.9	14.0	4.5	161 830	20.8	89.1	14.0	17.4	3.8

Sources: United Nations, *Monthly Bulletin of Statistics*, national sources and preliminary estimates by the UNCTAD secretariat.

[a] Percentage of GDP in 1976.

[b] *Excluding major petroleum exporters.*

TABLE 7

Growth of export value and purchasing power of least developed countries, 1960-1978

Country	*Annual average growth rates of export value (percentage)*							*Annual average growth rates of purchasing power of exports (percentage)*						
	1960-1970[a]	*1970-1977*	*1970-1974*	*1974-1975*	*1975-1976*	*1976-1977*	*1977-1978*	*1960-1970*	*1970-1977*	*1970-1974*	*1974-1975*	*1975-1976*	*1976-1977*	*1977-1978*
Afghanistan	4.2	21.0	27.9	-3.0	12.1	30.8	-2.1	2.6	9.0	10.2	-6.7	10.6	19.8	-9.7
Bangladesh	5.2	-2.0	-7.5	-20.3	42.6	4.4	10.9	4.3	-13.3	-22.6	-23.3	39.2	-3.7	2.3
Benin	7.0	8.1	0.7	35.3	19.6	3.6	..	5.8	-3.5	-13.9	26.2	18.6	-5.0	..
Bhutan	..	..	..	..	..	..	..	..	..	..	..	..	..	..
Botswana	8.5	37.1	53.1	17.4	23.9	13.6	..	7.3	21.7	29.3	11.1	21.5	4.7	..
Burundi	9.4	20.5	4.7	6.7	71.9	67.3	-45.7	8.2	6.9	-11.8	1.0	68.4	54.1	-49.9
Cape Verde	-5.2	0.0	0.0	0.0	0.0	0.0	..	-6.2	-11.2	-15.5	-5.3	-2.0	-7.9	..
Central African Empire	10.0	14.9	11.6	0.0	20.8	41.4	..	8.5	3.2	-4.2	-3.6	17.5	31.0	..
Chad	6.9	12.9	5.4	29.7	31.3	11.1	..	4.8	1.8	-8.9	25.2	28.8	2.1	..
Comoros	4.6	8.8	-5.4	150.0	-10.0	0.0	..	3.5	-3.5	-20.1	136.7	-11.8	-7.9	..
Democratic Yemen	-4.0	4.6	13.5	-24.8	-2.7	13.0	..	-5.0	-7.1	-4.2	-28.8	-4.7	4.1	..
Ethiopia	5.0	15.4	23.4	-15.5	16.3	19.8	-9.9	3.8	1.5	3.1	-21.5	12.5	11.1	-16.9
Gambia	7.0	16.0	28.9	2.1	-27.1	37.1	..	5.8	3.3	9.4	-3.7	-27.7	25.9	..
Guinea	-0.4	29.6	26.0	34.9	51.7	18.9	4.7	-1.5	15.0	6.4	27.7	48.7	9.5	-3.4
Haiti	0.5	20.0	15.8	9.7	31.6	37.5	..	-0.6	6.5	-2.2	3.9	29.0	26.6	..
Lao People's Democratic Republic	21.9	11.5	12.0	0.0	0.0	36.4	..	20.6	-1.0	-5.5	-5.3	-2.0	25.6	..
Lesotho	4.7	24.6	23.6	-7.1	92.3	12.0	..	3.6	10.6	4.4	-12.1	88.5	3.2	..
Malawi	9.4	18.3	18.7	16.8	6.5	31.8	-2.6	7.9	6.3	2.3	10.2	5.6	20.6	-10.1
Maldives	2.6	7.6	7.5	0.0	0.0	25.0	..	1.5	-4.5	-9.3	-5.3	-2.0	15.1	..
Mali	5.0	20.8	18.0	-17.2	60.4	45.9	..	3.6	8.2	0.6	-20.0	58.7	33.7	..
Nepal	24.1	13.0	9.1	45.6	4.0	9.7	..	22.7	0.3	-7.9	37.8	2.0	1.1	..
Niger	7.8	26.4	13.4	71.7	47.3	23.1	..	6.6	13.3	-2.7	63.1	45.0	13.0	..
Rwanda	16.9	20.4	10.3	13.5	92.9	13.6	19.6	15.4	8.1	-5.4	8.8	90.1	4.1	10.4
Samoa	-4.1	14.6	27.0	-46.2	0.0	85.7	..	-5.2	1.8	7.2	-49.0	-2.0	71.0	..
Somalia	2.4	18.2	18.9	43.5	-4.5	17.6	-20.0	1.3	5.4	0.7	37.4	-5.6	8.2	-26.2
Sudan	3.4	12.3	10.7	-0.9	26.8	19.3	..	2.3	-0.3	-6.5	-6.7	24.6	10.2	..
Uganda	6.9	10.3	2.9	-18.7	40.9	55.0	-37.6	5.5	-1.6	-12.4	-22.6	37.0	43.3	-42.4
United Republic of Tanzania	4.9	10.0	11.5	-7.7	32.4	2.9	..	3.6	-3.1	-6.4	-14.6	28.5	-4.8	..
Upper Volta	18.0	17.3	18.9	22.2	20.5	3.8	-9.1	16.5	5.4	2.2	16.6	19.2	-5.0	-16.1
Yemen	-3.9	20.4	44.3	-15.4	-27.3	37.5	9.1	-4.9	6.9	21.8	-19.9	-28.7	26.6	0.7
TOTAL ABOVE[b]	-4.5	11.9	10.2	-2.4	26.5	20.9	-5.5[c]	3.4	-0.6	-6.9	-7.6	24.0	11.4	-12.8[c]
All developing countries[d]	6.5	20.0	26.2	-2.1	22.0	17.9	9.9	5.3	5.6	5.4	-8.1	18.8	9.0	2.1

Sources: United Nations, *Monthly Bulletin of Statistics*, national sources and preliminary estimates by the UNCTAD secretariat.

[a] Exponential trend function.

[b] For the calculations of growth rates 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 total least developed countries.

[c] Including estimates for least developed countries not shown explicitly above.

[d] Excluding major petroleum exporters.

TABLE 8

Growth of import value and volume of least developed countries, 1960-1978

Country	*Annual average growth rates of import value (percentage)*							*Annual average growth rates of import volume (percentage)*						
	1960-1970[a]	*1970-1977*	*1970-1974*	*1974-1975*	*1975-1976*	*1976-1977*	*1977-1978*	*1960-1970*	*1970-1977*	*1970-1974*	*1974-1975*	*1975-1976*	*1976-1977*	*1977-1978*
Afghanistan	2.4	25.1	21.2	44.6	18.3	30.0	0.4	0.8	12.7	4.5	39.2	16.7	19.0	–7.3
Bangladesh	7.7	6.5	0.3	14.1	–10.2	50.4	11.8	6.7	–5.7	–16.1	9.7	–12.3	38.8	3.2
Benin	8.4	19.3	22.9	2.7	26.7	15.8	..	7.2	6.5	5.0	4.2	25.7	6.1	..
Bhutan	..	..	..	..	..	..	..	..	..	..	..	..	..	..
Botswana	18.8	23.9	39.4	16.2	–2.8	5.3	..	17.5	10.0	17.7	10.0	–4.7	–3.0	..
Burundi	2.0	22.5	18.2	46.5	–7.9	56.9	4.4	0.9	8.7	–0.2	38.7	–9.8	44.5	–3.7
Cape Verde	6.0	18.0	20.7	29.4	4.5	10.9	..	4.8	4.8	1.9	22.5	2.5	2.1	..
Central African Empire	5.9	9.2	7.8	4.3	12.5	16.7	..	4.4	–1.9	–7.4	0.6	9.3	8.1	..
Chad	7.0	12.6	10.8	44.6	–11.3	18.6	..	4.9	1.6	–4.2	39.5	–12.9	9.1	..
Comoros	8.5	10.4	13.6	53.3	–43.5	38.5	..	7.3	–2.0	–4.0	45.1	–44.6	27.5	..
Democratic Yemen	–1.8	16.9	19.2	–22.9	7.0	79.1	..	–2.9	3.8	0.7	–27.0	4.9	65.0	..
Ethiopia	7.3	10.8	13.1	17.1	7.3	–0.3	–3.4	6.0	–2.6	–5.6	8.8	3.8	–7.5	–10.9
Gambia	7.2	23.3	25.0	38.6	21.3	5.4	34.6	6.0	9.8	6.1	30.7	20.3	–3.2	24.2
Guinea	0.0	17.8	11.8	90.7	–22.0	35.2	27.2	–1.1	4.6	–5.6	80.5	–23.5	24.5	17.4
Haiti	0.7	31.7	20.3	11.0	71.1	72.9	..	–0.4	16.9	1.6	5.1	67.7	59.3	..
Lao People's Democratic Republic	19.6	–10.1	–13.4	–34.4	–4.8	35.0	..	18.3	–20.2	–26.9	–37.9	–6.7	24.3	..
Lesotho	7.3	25.8	38.0	38.8	–13.0	14.3	..	6.1	11.7	16.5	31.3	–14.8	5.3	..
Malawi	8.8	15.4	21.1	35.7	–18.3	14.6	44.7	7.3	3.7	4.3	23.5	–19.0	4.9	33.5
Maldives	–6.8	10.4	10.7	0.0	0.0	33.3	..	–7.8	–2.0	–6.6	–5.3	–2.0	22.8	..
Mali	1.0	19.0	39.7	–2.8	–13.8	6.0	..	–0.4	6.6	19.1	–6.1	–14.7	–2.9	..
Nepal	12.1	11.5	11.3	32.6	–2.9	8.4	..	10.9	–1.0	–6.0	25.5	–4.9	–0.1	..
Niger	12.8	14.5	13.7	2.1	28.3	18.1	..	11.2	2.7	–2.4	–3.0	26.3	8.4	..
Rwanda	9.2	21.6	18.9	65.5	7.3	10.7	31.6	7.8	9.2	2.0	58.7	5.7	1.5	21.4
Samoa	4.2	16.6	16.7	42.3	–18.9	36.7	9.8	3.1	3.5	–1.4	34.7	–20.5	25.9	1.3
Somalia	3.8	31.1	33.5	13.3	14.8	60.8	..	2.7	16.8	13.1	8.4	13.5	47.8	..
Sudan	2.3	18.4	19.2	45.7	2.5	8.2	13.2	1.2	5.1	0.7	37.2	0.8	–0.1	4.5
Uganda	7.4	5.5	5.5	–6.1	–15.0	47.1	8.0	6.0	–5.9	–10.2	–10.6	–17.3	36.0	–0.3
United Republic of Tanzania	7.2	13.0	24.0	3.1	–17.7	17.1	..	5.8	–0.5	4.0	–4.6	–20.1	8.4	..
Upper Volta	8.9	23.7	32.3	4.9	–4.0	44.1	10.0	7.5	11.2	13.7	0.1	–5.0	32.0	1.5
Yemen	11.5	64.0	56.1	54.7	39.5	153.7	15.4	10.3	46.0	31.8	46.5	36.7	133.6	6.5
TOTAL ABOVE[b]	5.7	16.4	15.8	18.5	0.3	35.6	12.2[c]	4.5	3.4	–2.2	12.2	–1.7	24.9	3.5[c]
All developing countries[d]	6.2	20.0	29.2	6.1	5.1	15.8	16.0	5.0	5.7	7.8	–0.4	2.3	7.0	7.8

Sources: United Nations, *Monthly Bulletin of Statistics*, national sources and preliminary estimates by the UNCTAD secretariat.

[a] Exponential trend function.

[b] For the calculations of 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 least developed countries.

[c] Including estimates for least developed countries not shown explicitly above.

[d] Excluding major petroleum exporters.

TABLE 9

Leading exports of least developed countries (ranked according to 1975 value)[a]

Item	Value of exports, 1975			
	In millions of dollars	*As a percentage of total least developed exports*	*As a percentage of all developing countries' exports of products shown*	*As a percentage of all world exports of products shown*
All commodities	2 819.7	100.00	1.33	0.32
Coffee	426.4	15.12	10.36	9.46
Cotton	375.4	13.31	15.82	8.36
Oil seeds, oil nuts and oil kernels	263.1	9.33	17.64	5.03
Petroleum products	212.0	7.52	1.26	0.61
Live animals	116.6	4.14	43.15	4.58
Textile fabrics, woven, other than cotton fabrics	90.8	3.22	10.38	1.10
Tobacco, unmanufactured	89.8	3.18	9.91	3.59
Fruit, fresh, and nuts, fresh or dried	84.9	3.01	4.42	1.61
Tea and maté	78.2	2.77	9.51	8.19
Ores and concentrates of non-ferrous base metals	76.5	2.71	3.07	1.28
Jute	69.0	2.45	56.58	53.10
Made-up articles, wholly or chiefly of textile materials, n.e.s.	68.0	2.41	13.37	4.23
Hides and skins, undressed	55.5	1.97	28.48	4.43
Spices	53.3	1.89	11.01	9.67
Crude vegetable materials, n.e.s.	53.1	1.88	10.85	2.15
Vegetables, fresh, frozen or simply preserved	51.2	1.82	5.35	1.47
Gas, natural and manufactured	45.4	1.61	3.65	0.83
Rice	44.5	1.58	4.97	2.15
Vegetable fibres, except cotton and jute	44.2	1.57	22.27	13.48
Sugar and honey	40.4	1.43	0.46	0.34
Feeding-stuff for animals	37.0	1.31	2.73	0.90
Fixed vegetable oils, soft	34.9	1.24	6.67	1.47
Pearls, precious and semi-precious stones	34.4	1.22	7.08	0.64
Dried fruit	28.2	1.00	16.90	6.61
Floor coverings, tapestries, etc.	19.2	0.68	5.27	0.96
Special textile fabrics and related products	17.6	0.62	9.91	0.76
Leather	17.2	0.61	4.16	1.12
Cocoa	13.6	0.48	0.71	0.59
Fish, fresh and simply preserved	12.7	0.45	0.89	0.31
Fur skins, undressed	12.5	0.44	63.08	1.65
Wool and other animal hair	12.2	0.43	3.58	0.45
Wood in the rough or roughly squared	12.0	0.43	0.91	0.36
Meat, fresh, chilled or frozen	11.1	0.39	1.94	0.16

Source: UNCTAD secretariat calculations, based on data from the Statistical Office of the United Nations.

[a] Data for 25 least developed countries accounting for over 90 per cent of the total exports of least developed countries. Principal commodity exports refer to exports amounting to over $10 million in 1975.

TABLE 10

Leading exports of individual least developed countries, 1975

		Value of exports, 1975				*Growth rate (percentage)*		
							Deviation	
SITC	*Country and leading export commodity*[a]	*In millions of dollars*	*As a percentage of country total*	*As a percentage of all developing countries*	*As a percentage of world*	*1970-1975 value*	*From all developing countries*	*From world*
		(1)	*(2)*	*(3)*	*(4)*	*(5)*	*(6)*	*(7)*
	Afghanistan							
	All commodities	223.4	100.00	0.11	0.03	21.4	7.8	-0.8
341	Gas, natural	45.3	20.30	3.65	0.83	25.9	-34.2	-24.8
051	Fresh fruit	41.2	18.47	2.15	0.78	19.2	6.4	2.8
263	Cotton	31.6	14.16	1.33	0.70	30.3	22.3	17.7
052	Dried fruit	28.1	12.58	16.86	6.60	19.1	6.7	6.2
657	Floor coverings, tapestries	16.8	7.51	4.61	0.84	20.9	-0.3	0.3
212	Fur skins, undressed	12.2	5.46	61.79	1.62	3.6	-4.3	-8.6
292	Crude vegetable materials, n.e.s.	12.2	5.45	2.49	0.49	48.7	32.3	35.0
	Bangladesh							
	All commodities	264.8	100.00	0.13	0.03	..	..	..
653	Woven textiles, non-cotton	88.7	33.51	10.14	1.08	..	..	..
656	Textile etc. products	65.3	24.67	12.84	4.07	..	..	..
264	Jute	63.9	24.13	52.38	49.16	..	..	..
611	Leather	15.6	5.89	3.77	1.02	..	..	..
074	Tea and maté	13.7	5.19	1.67	1.44	..	..	..
	Benin							
	All commodities	45.7	100.00	0.02	0.01	7.0	-6.7	-15.3
263	Cotton	7.4	16.12	0.31	0.16	7.7	-0.3	-4.9
221	Oil seeds, nuts, kernels	3.6	7.92	0.24	0.07	-3.9	-25.9	-23.9
422	Fixed vegetable oils, non-soft	3.1	6.68	0.21	0.16	-19.5	-45.8	-47.0
072	Cocoa	2.9	6.36	0.15	0.13	-11.7	-26.1	-27.1
081	Animal feeding stuff	2.6	5.65	0.19	0.06	16.6	7.2	2.2
	Burundi							
	All commodities	31.9	100.00	0.02	0.00	5.6	-8.1	-16.7
071	Coffee	28.1	87.99	0.68	0.62	6.4	-0.1	-0.9
	Cape Verde							
	All commodities	2.4	100.00	0.00	0.00	7.7	-6.0	-14.6
031	Fish fresh, simply preserved	0.8	32.25	0.05	0.02	..	..	..
072	Cocoa	0.4	18.23	0.02	0.02	..	..	..
724	Telecommunications equipment	0.3	12.82	0.04	0.00	..	..	..
692	Metal tanks, boxes, etc.	0.2	9.90	0.39	0.02	..	..	..
032	Fish etc. tinned, prepared	0.2	8.11	0.09	0.02	..	..	..
	Central African Empire							
	All commodities	47.2	100.00	0.02	0.01	9.1	-4.6	-13.2
071	Coffee	11.0	23.23	0.27	0.24	10.3	3.8	3.0
242	Wood rough	9.5	20.24	0.72	0.28	55.3	44.9	42.0
667	Pearls and precious and semi-precious stones (diamonds)	9.2	19.58	1.90	0.17	-5.8	-13.6	-24.8
263	Cotton	8.3	17.62	0.35	0.19	4.6	-3.4	-8.0
243	Wood shaped	4.3	9.19	0.64	0.0	40.4	24.1	26.9
	Chad							
	All commodities	48.1	100.00	0.02	0.01	14.3	0.6	-8.0
263	Cotton	29.9	62.12	1.26	0.67	11.8	3.8	-0.7
072	Cocoa	5.8	12.07	0.30	0.25	..	..	..
011	Meat fresh, chilled, frozen	3.9	8.21	0.69	0.06	-4.2	-2.2	-19.4
292	Crude vegetable materials, n.e.s.	3.0	6.18	0.61	0.12	83.9	67.6	70.2
	Comoros							
	All commodities	9.5	100.00	0.00	0.00	15.6	2.0	-6.6
551	Essential oils, perfumes etc.	1.1	11.70	0.90	0.15	-4.3	-21.3	-20.3
075	Spices	1.1	11.22	0.22	0.19	-14.5	-31.0	-31.4

TABLE 10 *(continued)*

Leading exports of individual least developed countries, 1975

SITC	Country and leading export commodity[a]	*Value of exports, 1975*				*Growth rate (percentage)*		
							Deviation	
		In millions of dollars	*As a percentage of country total*	*As a percentage of all developing countries*	*As a percentage of world*	*1970-1975 value*	*From all developing countries*	*From world*
		(1)	*(2)*	*(3)*	*(4)*	*(5)*	*(6)*	*(7)*
	Democratic Yemen							
	All commodities.	187.0	100.00	0.09	0.02	5.1	−8.6	−17.2
332	Petroleum products.	170.0	90.91	1.01	0.49	9.5	−23.4	−23.0
	Ethiopia							
	All commodities.	215.2	100.00	0.10	0.02	12.8	−0.9	−9.5
071	Coffee	73.2	34.03	1.78	1.62	0.2	−6.3	−7.1
221	Oil seeds, nuts, kernels	39.4	18.33	2.64	0.75	28.3	6.3	8.3
054	Vegetables, fresh, frozen or simply preserved	32.6	15.15	3.41	0.93	35.3	17.5	17.7
211	Hides, skins, undressed	16.4	7.64	8.43	1.31	10.9	14.6	1.1
001	Live animals	12.8	5.96	4.75	0.50	69.1	61.8	54.1
	Gambia							
	All commodities.	48.1	100.00	0.02	0.01	25.6	11.9	3.3
221	Oil seeds, nuts, kernels	27.5	57.11	1.84	0.53	29.3	7.3	9.3
421	Fixed vegetable oils, soft . . .	15.1	31.36	2.89	0.64	22.4	3.2	1.4
081	Animal feeding-stuff	4.4	9.22	0.33	0.11	15.7	6.3	1.3
	Haiti							
	All commodities.	81.2	100.00	0.04	0.01	14.9	1.2	−7.4
071	Coffee	18.5	22.78	0.45	0.41	3.9	−2.5	−3.4
061	Sugar and honey	11.1	13.65	0.13	0.09	27.7	−8.1	−6.7
283	Non-ferrous metal ores . . . . (bauxite)	10.5	12.89	0.42	0.18	8.8	−1.9	−4.6
894	Toys, sporting goods, etc. . . .	9.5	11.66	1.95	0.35	59.3	41.1	43.7
551	Essential oils, perfume etc.. . .	4.9	6.01	3.94	0.65	12.9	−4.1	−3.0
655	Special textile etc. products . .	4.7	5.78	2.65	0.20	67.3	32.7	48.3
	Lesotho	12.6	100.00	0.01	0.00	16.3	2.6	−6.0
	All commodities.							
262	Wool and animal hair	3.1	24.79	0.92	0.12	8.6	−2.5	−1.7
667	Pearls, precious, semi-precious stones.	0.7	5.23	0.14	0.01	−6.3	−14.1	−25.3
	Malawi							
	All commodities.	154.6	100.00	0.07	0.02	26.1	12.5	3.9
121	Tobacco unmanufactured . . .	74.3	48.06	8.20	2.97	30.1	6.7	15.3
074	Tea and maté	30.3	19.60	·3.69	3.17	18.3	9.2	8.7
061	Sugar and honey	20.0	12.92	0.23	0.17	254.4	218.6	219.9
221	Oil seeds, nuts, kernels	14.3	9.23	0.96	0.27	21.5	−0.6	1.4
	Mali							
	All commodities.	36.5	100.00	0.02	0.00	0.6	−13.1	−21.7
263	Cotton	16.0	43.84	0.68	0.36	17.0	9.0	4.4
001	Live animals	6.3	17.11	2.31	0.25	−12.5	−19.8	−27.5
221	Oil seeds, nuts, kernels	3.4	9.30	0.23	0.06	−1.1	−23.2	−21.2
031	Fish, fresh, simply preserved. .	2.8	7.57	0.19	0.07	0.2	−27.4	−20.4
	Nepal							
	All commodities.	87.8	100.00	0.04	0.01	12.8	−0.8	−9.4
042	Rice.	42.7	48.65	4.76	2.07	..	..	..
264	Jute.	5.1	5.83	4.20	3.94	..	..	..
	Niger							
	All commodities.	91.2	100.00	0.04	0.01	23.6	9.9	1.3
283	Non-ferrous metal ores (uranium)	55.4	60.77	2.22	0.93	314.4	303.6	300.9
001	Live animals	17.0	18.68	6.30	0.67	27.8	20.5	12.7
421	Fixed vegetable oils, soft	4.8	5.25	0.92	0.20	17.3	−1.9	−3.7

TABLE 10 *(concluded)*

Leading exports of individual least developed countries, 1975

SITC	Country and leading export commodity[a]	Value of exports, 1975: In millions of dollars	Value of exports, 1975: As a percentage of country total	Value of exports, 1975: As a percentage of all developing countries	Value of exports, 1975: As a percentage of world	Growth rate (percentage): 1970-1975 value	Growth rate (percentage): Deviation: From all developing countries	Growth rate (percentage): Deviation: From world
		(1)	(2)	(3)	(4)	(5)	(6)	(7)
	Rwanda							
	All commodities	42.2	100.00	0.02	0.00	11.5	−2.2	−10.8
071	Coffee	26.3	62.22	0.64	0.58	13.6	7.1	6.3
283	Non-ferrous metal ores (tin and tungsten)	7.6	18.03	0.31	0.13	−2.4	−13.2	−15.9
074	Tea and maté	3.6	8.55	0.44	0.38	30.3	21.2	20.7
292	Crude vegetable materials n.e.s.	2.2	5.12	0.44	0.09	37.7	21.4	24.0
	Samoa							
	All commodities	7.0	100.00	0.00	0.00	8.6	−5.1	−13.7
221	Oil seeds, nuts, kernels	4.1	57.99	0.27	0.08	16.0	−6.1	−4.0
072	Cocoa	1.8	25.14	0.09	0.08	4.6	−9.8	−10.8
	Somalia							
	All commodities	88.6	100.00	0.04	0.01	23.0	9.4	0.8
001	Live animals	60.7	68.51	22.45	2.39	29.4	22.1	14.4
051	Fresh fruit (bananas)	10.3	11.62	0.54	0.19	3.1	−9.7	−13.3
013	Tinned meat	4.9	5.52	1.91	0.35	39.5	33.4	29.5
	Sudan							
	All commodities	424.0	100.00	0.20	0.05	7.8	−5.9	−14.5
263	Cotton	191.8	45.24	8.09	4.27	0.5	−7.5	−12.1
221	Oil seeds, nuts, kernels	140.5	33.13	9.42	2.69	26.5	4.5	6.5
292	Crude vegetable materials	24.1	5.69	4.93	0.98	−1.5	−17.8	−15.2
	Uganda							
	All commodities	263.0	100.00	0.12	0.03	1.5	−12.1	−20.7
071	Coffee	199.3	75.79	4.85	4.42	7.0	0.5	−0.3
263	Cotton	28.5	10.85	1.20	0.64	−10.3	−18.3	−22.9
074	Tea and maté	16.3	6.21	1.99	1.71	4.3	−4.8	−5.3
	United Republic of Tanzania							
	All commodities	343.2	100.00	0.16	0.04	7.8	−5.9	−14.5
071	Coffee	65.3	19.01	1.59	1.45	8.3	1.8	1.0
075	Spices	46.5	13.54	9.59	8.43	23.3	6.9	6.5
265	Vegetable fibres except cotton and jute	40.8	11.90	20.56	12.45	10.1	−2.0	−0.4
263	Cotton	40.0	11.64	1.68	0.89	2.9	−5.1	−9.7
051	Fresh fruit	29.8	8.69	1.55	0.56	9.2	−3.6	−7.2
667	Pearls, precious, semi-precious stones	24.3	7.09	5.02	0.45	1.2	−6.6	−17.8
332	Petroleum products	18.8	5.47	0.11	0.05	3.7	−29.2	−28.7
	Upper Volta							
	All commodities	43.5	100.00	0.02	0.00	19.1	5.4	−3.2
001	Live animals	15.7	36.09	5.81	0.62	22.5	15.2	7.5
221	Oil seeds, nuts, kernels	12.2	27.92	0.81	0.23	21.1	−0.9	1.1
263	Cotton	7.1	16.29	0.30	0.16	8.7	0.7	−3.9
	Yemen							
	All commodities	10.9	100.00	0.01	0.00	31.2	17.6	8.9
263	Cotton	5.9	53.93	0.25	0.13	2158.5	2150.4	2145.9
071	Coffee	1.5	13.36	00.04	0.03	0.3	−6.2	−7.1
211	Hides, skins undressed	1.4	12.53	0.70	0.11	45.1	48.8	35.2

Source: Handbook of International Trade and Development Statistics, 1979 (United Nations publication, Sales No. E/F.79.II.D.2).

Note: Column (1) shows export values f.o.b. in millions of dollars. Column (2) shows, for each commodity presented, its percentage share in the individual country export total, while columns (3) and (4) show the relative importance of each commodity shown expressed as a percentage of the relevant group total for that commodity (i.e. "all developing countries" and "world" respectively). Columns (5) to (7) show average annual compound growth rates. Column (5) is based on 1970 and 1975 export values. Columns (6) and (7) show the amount by which the growth rate in column (5) differs from the corresponding average growth rate for "all developing countries" and for the "world" respectively, for the particular commodity. For more details, see above-mentioned *Handbook*, table 4.3 (D).

[a] Leading export commodity: a commodity accounting for at least 5 per cent of the country's export total.

TABLE 11

Per capita foreign exchange receipts of individual least developed countries (expressed in constant 1977 dollars),[a] 1965-1968 average, 1972, 1975, 1976 and 1977

Country	*Export purchasing power, per capita*					*External assistance, per capita*[b]					*Total receipts, per capita*				
	Average 1965-1968	*1972*	*1975*	*1976*	*1977*	*1965-1968*	*1972*	*1975*	*1976*	*1977*	*1965-1968*	*1972*	*1975*	*1976*	*1977*
Afghanistan	10.8	10.7	14.8	16.0	18.7	10.8	8.8	8.2	7.9	8.6	21.6	19.5	23.0	23.9	27.3
Bangladesh	17.2	9.0	4.3	5.8	5.5	4.8[c]	6.2	16.0	7.4	9.2	22.0	15.2	20.3	13.2	14.7
Benin	13.7	24.4	16.4	18.8	17.3	16.6	12.4	21.2	19.1	18.7	30.3	36.8	37.6	37.9	36.0
Bhutan	. .	. .	. .	. .	. .	0.2	0.4	2.0	2.9	2.4	. .	. .	. .	. .	. .
Botswana	64.6	182.5	227.5	276.8	281.7	77.5	278.9	86.7	83.0	59.4	142.1	461.4	314.2	359.8	341.1
Burundi	9.5	14.8	9.3	15.5	23.2	7.4	14.4	15.9	13.1	15.5	16.9	29.2	25.2	28.6	38.7
Cape Verde	8.0	14.3	6.7	6.7	6.7	. .	0.7	31.7	90.0	88.1	8.0	15.0	38.4	96.7	94.6
Central African Empire	44.3	42.5	29.6	34.4	43.9	28.8	31.3	36.3	23.4	21.9	73.1	73.8	65.9	57.8	65.8
Chad	17.2	17.4	13.2	16.7	16.7	14.9	14.8	19.0	17.1	21.2	32.1	32.2	32.2	33.8	37.9
Comoros	40.0	42.9	35.5	32.3	24.3	. .	72.5	71.6	94.5	38.1	40.0	115.4	107.1	126.8	62.4
Democratic Yemen	273.0	138.7	122.5	109.7	111.1	36.7	15.4	65.7	137.1	59.9	309.7	154.1	188.2	246.8	171.0
Ethiopia	12.5	13.6	9.7	10.6	11.5	5.1	4.2	5.3	5.2	3.7	17.6	17.8	15.0	15.8	15.2
Gambia	83.3	77.6	101.9	70.4	87.3	17.6	19.4	17.7	24.1	50.4	100.9	97.0	119.6	94.5	137.7
Guinea	36.7	22.4	35.7	52.1	55.5	19.8	43.7	15.0	1.7	−4.1[c]	56.5	66.1	50.7	53.8	51.4
Haiti	21.4	19.2	19.2	24.2	30.1	2.8	2.5	14.5	16.6	17.9	24.2	21.7	33.7	40.8	48.0
Lao People's Democratic Republic	2.5	2.6	3.6	3.5	4.3	58.6	42.9	13.0	9.8	9.3	61.1	45.5	16.6	13.3	13.6
Lesotho	16.3	16.5	13.5	25.5	25.9	34.9	29.0	32.4	30.8	35.8	51.2	45.5	45.9	56.3	61.7
Malawi	26.6	31.0	30.4	31.3	35.3	16.6	17.9	14.6	15.6	17.1	43.2	48.9	45.0	46.9	52.4
Maldives	50.0	54.5	30.8	28.6	35.7	7.0	12.7	29.2	42.9	19.3	57.0	67.2	60.0	71.5	55.0
Mali	6.3	12.2	10.2	15.9	20.7	9.9	16.1	31.3	19.8	18.3	16.2	28.3	41.5	35.7	39.0
Nepal	12.0	9.7	8.7	8.7	8.6	2.5	5.1	4.1	4.2	6.2	14.5	14.8	12.8	12.9	14.8
Niger	18.8	24.0	22.0	30.9	34.0	13.6	18.4	33.6	31.2	25.4	32.4	42.4	55.6	62.1	59.4
Rwanda	9.2	9.2	11.0	20.5	21.1	8.1	14.6	23.9	22.3	23.2	17.3	23.8	34.9	42.8	44.3
Samoa	92.3	66.7	53.3	53.3	86.7	10.8	72.7	101.3	90.7	160.7	103.1	139.4	154.6	144.0	247.4
Somalia	26.2	28.6	30.9	28.2	29.9	20.7	21.2	69.5	47.3	109.0	46.9	49.8	100.4	75.5	138.9
Sudan	39.3	49.4	30.6	37.2	39.0	5.7	6.9	46.1	40.3	25.7	45.0	56.3	76.7	77.5	64.7
Uganda	56.3	52.5	24.8	32.7	45.4	7.3	7.3	6.8	6.2	2.4	63.6	59.8	31.6	38.9	47.8
United Republic of Tanzania	49.2	48.1	26.9	33.9	31.3	8.2	20.5	31.1	21.9	25.9	57.4	68.6	58.0	55.8	57.2
Upper Volta	7.4	6.6	8.1	9.4	8.7	8.5	11.5	16.1	15.6	19.4	15.9	18.1	24.2	25.0	28.1
Yemen	1.9	1.3	1.8	1.3	1.6	1.6	7.8	31.5	47.5	43.8	3.5	9.1	33.3	48.8	45.4
TOTAL ABOVE	22.8	20.2	14.6	17.7	19.1	8.6	11.0	18.9	15.1	14.9	31.4	31.2	33.5	32.8	34.0
All developing countries[d]	48.0	56.6	56.9	68.6	73.1	12.8	13.0	23.8	24.7	24.8	60.8	69.6	80.7	93.3	97.9

Source: UNCTAD secretariat calculations.

[a] The 1965-1968, 1972, 1975 and 1976 export receipts and external assistance receipts are expressed in terms of their command over imports at 1977 prices.

[b] Official loan and grant receipts, including private guaranteed export credits, from DAC member countries and multilateral agencies largely financed by them, loan receipts from socialist countries of Eastern Europe and from China, loan and grant receipts from members of OPEC and multilateral agencies largely financed by them, and IMF oil facility. Data are on a net disbursement basis.

[c] Estimate.

[d] Excluding major petroleum exporters.

TABLE 12A

Least developed countries: composition of total financial flows in current dollars, 1965-1977
(Net disbursements in millions of dollars)

	Average 1965-1968	*1969*	*1970*	*1971*	*1972*	*1973*	*1974*	*1975*	*1976*	*1977*
Concessional loans and grants										
Total	(683.4)	(746.1)	(901.8)	(970.6)	1 096.6	1 608.1	2 350.1	3 590.1	3 122.2	3 423.4
DAC	(629.5)	(674.9)	(780.7)	(848.6)	957.6	1 365.0	1 742.6	2 636.2	2 188.4	2 421.6
of which:										
Bilateral	(528.6)	(531.9)	(607.0)	(641.9)	725.7	956.6	1 181.6	1 739.7	1 341.1	1 507.7
Multilateral[a]	(100.9)	(143.0)	(173.7)	(206.7)	231.9	408.4	561.0	896.5	847.3	913.9
of which:										
Grants	(486.8)	(444.2)	(499.4)	(575.9)	865.1	997.2	1 277.8	1 601.7	1 385.0	1 572.1
Loans	(142.7)	(230.7)	(281.3)	(272.7)	92.5	367.8	464.8	1 034.5	803.4	849.5
of which:										
Technical assistance	(177.0)	(258.5)	(260.6)	(293.4)	330.2	379.4	436.7	577.4	577.9	597.1
Other	(452.5)	(416.4)	(520.1)	(555.2)	627.4	985.6	1 305.9	2 058.8	1 610.5	1 824.5
OPEC	–	–	–	–	–	23.7	413.9	661.7	715.4	858.0
of which:										
Bilateral	–	–	–	–	–	23.7	321.8	583.5	637.7	750.9
Multilateral	–	–	–	–	–	–	92.1	78.1	77.7	107.1
Socialist countries of eastern Europe[b]	(48.1)[c]	(49.2)	(83.2)	(83.0)	74.7	120.0	77.4	160.9	120.0	(72.0)
China[b]	(5.8)[c]	(22.0)	(37.9)	(39.0)	64.3	99.4	116.2	131.3	98.4	(71.8)
Non-concessional flows										
Total	44.1	(107.0)	(120.1)	(124.4)	192.7	355.6	432.2	802.0	479.7	574.3
Bilateral official flows from DAC countries	0.9	(8.6)	(–2.3)	12.3	55.0	64.7	–0.8	2.2	34.0	31.2
Multilateral official flows from DAC countries[a]	1.8	(37.5)	(50.9)	(53.0)	57.5	39.4	10.0	102.5	19.8	38.2
Bilateral official flows from members of OPEC	–	–	–	–	–	54.5	210.8	119.4	88.4	46.8
Multilateral official flows from members of OPEC	–	–	–	–	–	–	7.5	16.1	27.9	5.0
Guaranteed private export credits from DAC countries	26.4	40.9	31.5	34.1	50.2	57.1	34.4	203.0	156.8	306.8
Other private flows, including other international bank lending, from DAC countries[d]	(15.0)	(20.0)	(40.0)	(25.0)	(30.0)	(125.0)	(5.0)	(220.0)	(115.0)	(150.0)
Suppliers' credits from socialist countries of eastern Europe	–	–	–	–	–	14.9	11.3	5.2	1.9	–0.1
Suppliers' credits from China	–	–	–	–	–	–	–	–	–	–
IMF oil facility	–	–	–	–	–	–	154.0	133.6	35.9	–3.6
TOTAL FINANCIAL FLOWS	(727.5)	(853.1)	(1 021.9)	(1 095.0)	1 289.3	1 963.4	2 782.3	4 392.1	3 601.9	3 997.7
of which:										
Total net loans and grants[e]	(712.5)	(833.1)	(981.9)	(1 070.0)	1 259.3	1 838.7	2 777.3	4 172.1	3 486.9	3 847.7

Source: UNCTAD secretariat estimates, based on DAC and World Bank data.

[a] From multilateral institutions financed largely by DAC countries.

[b] Net disbursements on loans only.

[c] 1968.

[d] Direct investment and bilateral portfolio investment, including Eurocurrency credits other other than guaranteed export credits.

[e] Total financial flows, excluding "other private flows, including other international bank lending, from DAC countries".

TABLE 12B

All developing countries: composition of total financial flows in current dollars, 1956-1977

(Net disbursements in millions of dollars)

	Average 1965-1968	*1969*	*1970*	*1971*	*1972*	*1973*	*1974*	*1975*	*1976*	*1977*
Concessional loans and grants										
Total	6 108.4	6 529.3	6 936.2	7 707.6	7 968.3	10 465.1	14 305.6	18 854.6	18 086.8	19 418.7
DAC	5 765.5	6 195.0	6 555.3	7 383.4	7 694.7	8 797.8	10 806.6	13 315.2	12 659.4	13 467.7
of which:										
Bilateral	(5 149.9)	5 269.7	5 517.4	6 129.4	6 342.3	6 862.9	8 148.1	9 718.5	9 353.2	9 880.1
Multilateral[a]	(615.6)	925.3	1 038.0	1 254.0	1 352.4	1 934.9	2 658.5	3 596.7	3 306.2	3 587.6
of which:										
Grants	(3 888.5)	3 732.8	3 932.7	4 330.4	5 121.9	5 442.2	6 765.9	8 327.4	8 023.0	8 866.2
Loans	(1 877.0)	2 462.2	2 662.6	3 053.0	2 572.8	3 355.6	4 040.7	4 987.8	4 636.4	4 601.5
of which:										
Technical assistance	(1 272.7)	1 828.5	1 875.2	2 068.7	2 292.4	2 789.6	3 187.0	3 938.9	3 754.9	4 038.9
Other	(4 492.8)	4 366.5	4 680.1	5 314.7	5 402.3	6 008.2	7 619.6	9 376.3	8 904.5	9 428.8
OPEC	–	–	–	–	–	1 208.2	3 126.4	5 090.8	4 940.3	5 247.7
of which:										
Bilateral	–	–	–	–	–	1 208.2	3 009.6	4 930.9	4 517.9	3 758.7
Multilateral	–	–	–	–	–	–	116.7	159.9	422.4	1 489.0
Socialist countries of eastern Europe[b]	329.3[c]	301.7	303.4	223.5	147.3	231.1	139.6	237.6	261.7	496.0
China[b]	13.6[c]	32.6	77.5	110.7	126.3	228.0	233.0	211.0	225.4	207.3
Non-concessional flows										
Total	4 722.5	6 382.8	7 500.2	8 444.5	10 218.1	15 792.5	16 500.1	29 497.7	29 942.7	38 347.7
Bilateral official flows from DAC countries	607.4	486.2	694.2	820.4	973.6	1 761.0	1 294.3	1 528.4	1 687.0	1 651.8
Multilateral official flows from DAC countries[a]	211.5	484.7	615.2	814.6	900.4	1 106.8	1 561.2	2 219.6	2 189.9	2 386.4
Bilateral official flows from members of OPEC	–	–	–	–	–	143.1	785.6	1 415.4	1 373.6	824.6
Multilateral official flows from members of OPEC	–	–	–	–	–	–	24.1	52.3	182.7	416.7
Guaranteed private export credits from DAC countries	982.6	1 755.0	2 002.1	2 447.4	1 393.7	1 047.9	1 975.0	3 933.5	4 939.3	7 427.4
Other private flows, including other international bank lending, from DAC countries[d]	2 934.0	3 676.5	4 201.1	4 367.1	6 953.4	11 719.3	9 918.0	18 754.8	19 194.5	25 825.7
Suppliers credits from socialist countries of eastern Europe	−12.0[c]	−17.7	−13.1	−3.7	−1.7	15.7	31.4	49.4	54.7	22.7
Suppliers' credits from China	−1.0[c]	−1.9	–	−1.3	−1.3	−1.3	−1.2	−1.1	–	–
IMF oil facility	–	–	–	–	–	–	911.7	1 544.8	321.0	−207.6
TOTAL FINANCIAL FLOWS	10 830.9	12 912.1	14 436.4	16 152.1	18 186.4	26 257.6	30 805.7	48 351.7	48 029.5	57 766.4
of which:										
Total net loans and grants[e]	7 896.9	9 235.6	10 235.3	11 785.0	11 233.0	14 538.3	20 887.7	29 596.9	28 835.0	31 940.7

Source: UNCTAD secretariat estimates, based on DAC and World Bank data.

[a] From multilateral institutions financed largely by DAC countries.

[b] Net disbursements on loans only.

[c] 1968.

[d] Direct investment and bilateral portfolio investment, including Eurocurrency credits other than guaranteed export credits.

[e] Total financial flows, excluding "other private flows, including other international bank lending, from DAC countries".

TABLE 13A

Least developed countries: composition of total financial flows in constant 1977 dollars, 1965-1977

(Net disbursements in millions of dollars)

	Average 1965-1968	*1969*	*1970*	*1971*	*1972*	*1973*	*1974*	*1975*	*1976*	*1977*
Concessional loans and grants										
Total	(1 628.7)	(1 759.4)	(2 076.4)	(2 075.4)	2 182.5	2 565.9	2 750.4	3 977.4	3 389.8	3 423.4
DAC	(1 500.3)	(1 591.5)	(1 797.6)	(1 814.5)	1 905.8	2 178.0	2 039.4	2 920.6	2 376.0	2 421.6
of which:										
Bilateral	(1 259.8)	(1 254.3)	(1 397.6)	(1 372.5)	1 444.3	1 526.4	1 382.9	1 927.4	1 456.1	1 507.7
Multilateral[a]	(240.5)	(337.2)	(400.0)	(442.0)	461.5	651.6	656.5	993.2	919.9	913.9
of which:										
Grants	(1 160.2)	(1 047.5)	(1 149.9)	(1 231.4)	1 721.7	1 591.2	1 495.4	1 774.5	1 503.7	1 572.1
Loans.	(340.1)	(544.0)	(647.7)	(583.1)	184.1	586.8	544.0	1 146.1	872.3	849.5
of which:										
Technical assistance. . .	(421.8)	(609.6)	(600.0)	(627.3)	657.2	605.4	511.1	639.7	627.4	597.1
Other.	(1 078.5)	(981.9)	(1 197.6)	(1 187.2)	1 248.6	1 572.6	1 528.3	2 280.9	1748.6	1 824.5
OPEC.	–	–	–	–	–	37.8	484.4	733.1	776.7	858.0
of which:										
Bilateral	–	–	–	–	–	37.8	376.6	646.5	692.4	750.9
Multilateral	–	–	–	–	–	–	107.8	86.5	84.3	107.1
Socialist countries of eastern Europe[b].	(114.6)[c]	(116.0)	(191.6)	(177.5)	148.7	191.5	90.6	178.2	130.3	(72.0)
China[b]	(13.8)[c]	(51.9)	(87.2)	(83.4)	128.0	158.6	136.0	145.5	106.8	(71.8)
Non-concessional flows										
Total	(105.1)	(252.3)	(276.5)	(266.0)	383.5	567.4	505.8	888.5	520.8	574.3
Bilateral official flows from DAC countries . .	2.2	(20.3)	(–5.3)	26.3	109.5	103.2	–0.9	2.4	36.9	31.2
Multilateral official flows from DAC countries[a]. .	4.3	(88.4)	(117.2)	(113.3)	114.4	62.9	11.7	113.6	21.5	38.2
Bilateral official flows from members of OPEC	–	–	–	–	–	87.0	246.7	132.3	96.0	46.8
Multilateral official flows from members of OPEC	–	–	–	–	–	–	8.8	17.8	30.3	5.0
Guaranteed private export credits from DAC countries.	62.9	96.4	72.5	72.9	99.9	91.1	40.2	224.9	170.2	306.8
Other private flows, including other international bank lending, from DAC countries[d]. .	(35.7)	(47.2)	(92.1)	(53.5)	(59.7)	(199.4)	(5.9)	(243.7)	(124.8)	(150.0)
Suppliers' credits from socialist countries of eastern Europe	–	–	–	–	–	23.8	13.2	5.8	2.1	–0.1
Suppliers credits from China.	–	–	–	–	–	–	–	–	–	–
IMF oil facility	–	–	–	–	–	–	180.2	148.0	39.0	–3.6
TOTAL FINANCIAL FLOWS	(1 733.8)	(2 011.7)	(2 352.9)	(2 341.4)	2 566.0	3 133.3	3 256.2	4 865.9	3 910.6	3 997.7
of which:										
Total net loans and grants[e]	(1 698.1)	(1 964.5)	(2 260.8)	(2 287.9)	2 506.3	2 933.9	3 250.3	4 622.2	3 785.8	3 847.7

Source: UNCTAD secretariat estimates, based on DAC and World Bank data.

[a] From multilateral institutions financed largely by DAC countries.

[b] Net disbursements on loans only.

[c] 1968.

[d] Direct investment and bilateral portfolio investment, including Eurocurrency credits other than guaranteed export credits.

[e] Total financial flows, excluding "other private flows, including other international bank lending, from DAC countries".

TABLE 13B

All developing countries: composition of total financial flows in constant 1977 dollars, 1965-1977

(Net disbursements in millions of dollars)

	Average 1965-1968	*1969*	*1970*	*1971*	*1972*	*1973*	*1974*	*1975*	*1976*	*1977*
Concessional loans and grants										
Total	15 403.6	16 292.8	16 880.6	17 394.3	16 618.8	17 485.2	16 960.0	20 889.7	19.638.5	19 418.7
DAC	14 538.9	15 458.6	15 953.6	16 662.6	16 048.2	14 699.4	12 811.8	14 752.4	13 745.5	13 467.7
of which:										
Bilateral	12 986.5	13 149.7	13 427.6	13 832.6	13 227.6	11 466.6	9 660.0	10 767.5	10 155.6	9 880.1
Multilateral[a]	1 522.4	2 308.9	2 526.0	2 830.0	2 820.6	3 232.6	3 151.8	3 984.9	3 589.9	3 587.6
of which:										
Grants	9 805.7	9 314.6	9 571.0	9 772.7	10 682.3	9 092.9	8 021.3	9 226.2	8 711.3	8 866.2
Loans	4 733.2	6 144.0	6 382.6	6 889.9	5 365.5	5 606.5	4 790.5	5 526.2	5 034.2	4 601.5
of which:										
Technical assistance	3 209.4	4 562.7	4 563.7	4 668.6	4 781.1	4 660.9	3 778.4	4 364.0	4 077.0	4 038.9
Other	11 329.5	10 895.9	11 389.9	11 994.0	11 267.1	10 038.5	9 033.4	10 388.4	9 668.5	9 468.8
OPEC	–	–	–	–	–	2 018.7	3 706.5	5 640.3	5 364.1	5 247.7
of which:										
Bilateral	–	–	–	–	–	2 018.7	3 568.0	5 463.1	4 905.5	3 758.7
Multilateral	–	–	–	–	–	–	138.4	177.2	458.6	1 489.0
Socialist countries of eastern Europe[b]	830.4	752.9	738.4	504.4	307.2	386.1	165.5	263.2	284.2	496.0
China[b]	34.3	81.3	188.6	227.3	263.4	381.0	276.2	233.8	244.7	207.3
Non-concessional flows										
Total	11 908.8	15 927.2	18 253.2	19 057.3	21 310.9	26 386.2	19 561.7	32 681.0	32 511.6	38 347.7
Bilateral official flows from DAC countries	1 531.7	1 213.2	1 691.2	1 851.5	2 030.5	2 942.3	1 534.4	1 693.4	1 831.7	1 651.8
Multilateral official flows from DAC countries[a]	533.4	1 209.5	1 497.2	1 838.4	1 877.9	1 849.3	1 850.9	2 459.2	2 377.8	2 386.4
Bilateral official flows from members of OPEC	–	–	–	–	–	239.1	931.3	1 568.2	1 491.4	824.6
Multilateral official flows from members of OPEC	–	–	–	–	–	–	28.6	57.9	198.4	416.7
Guaranteed private export credits from DAC countries	2 477.8	4 379.3	4 872.5	5 523.2	2 906.7	1 750.8	2 341.5	4 358.1	5 363.1	7 427.4
Other private flows, including other international bank lending, from DAC countries[c]	7 398.7	9 174.1	10 224.2	9 855.5	14 502.1	19 580.7	11 758.3	20 779.2	20 841.3	25 825.7
Suppliers' credits from socialist countries of eastern Europe	–30.3[d]	–44.2	–31.9	–8.4	–3.6	26.2	37.2	54.7	59.4	22.7
Suppliers' credits from China	–2.5[d]	–4.7	–	–2.9	–2.7	–2.2	–1.4	–1.2	–	–
IMF oil facility	–	–	–	–	–	–	1 080.9	1 711.5	348.5	–207.6
TOTAL FINANCIAL FLOWS	27 312.4	32 220.0	35 133.8	36 451.6	37 929.7	43 871.4	36 521.7	53 570.7	52 150.1	57 766.4
of which:										
Total net loans and grants[e]	19 913.7	23 045.9	24 909.6	26 596.1	23 427.6	24 290.7	24 763.4	32 791.5	31 308.8	31 940.7

Source: UNCTAD secretariat estimates, based on DAC and World Bank data.

[a] From multilateral institutions financed largely by DAC countries.

[b] Net disbursements on loans only.

[c] Direct investment and bilateral portfolio investment, including Eurocurrency credits other than guaranteed export credits.

[d] 1968.

[e] Total financial flows, excluding "other private flows, including other international bank lending, from DAC countries".

TABLE 14A

Least developed countries: composition of total financial flows in constant 1977 dollars, per capita, 1965-1977

(Net disbursements in dollars)

	Average 1965-1968	*1969*	*1970*	*1971*	*1972*	*1973*	*1974*	*1975*	*1976*	*1977*
Concessional loans and grants										
Total	8.20	8.32	9.58	9.34	9.59	11.02	11.52	16.26	13.52	13.28
DAC	7.55	7.52	8.30	8.17	8.38	9.35	8.54	11.94	9.48	9.39
of which:										
Bilateral	6.34	5.93	6.45	6.18	6.35	6.55	5.79	7.88	5.81	5.85
Multilateral[a]	1.21	1.59	1.85	1.99	2.03	2.80	2.75	4.06	3.67	3.54
of which:										
Grants	5.84	4.95	5.31	5.54	7.57	6.83	6.26	7.25	6.00	6.10
Loans	1.71	2.57	2.99	2.63	0.81	2.52	2.28	4.69	3.48	3.29
of which:										
Technical assistance	2.12	2.88	2.77	2.82	2.89	2.60	2.14	2.62	2.50	2.31
Other	5.43	4.64	5.53	5.35	5.49	6.75	6.40	9.32	6.98	7.08
OPEC	–	–	–	–	–	0.16	2.03	3.00	3.10	3.33
of which:										
Bilateral	–	–	–	–	–	0.16	1.58	2.64	2.76	2.91
Multilateral	–	–	–	–	–	–	0.45	0.35	0.34	0.42
Socialist countries of eastern Europe[b]	0.58	0.55	0.88	0.80	0.65	0.82	0.38	0.73	0.52	0.28
China[b]	0.07	0.25	0.40	0.37	0.56	0.68	0.57	0.59	0.42	0.28
Non-concessional flows										
Total	0.53	1.19	1.28	1.20	1.68	2.44	2.12	3.63	2.08	2.23
Bilateral official flows from DAC countries	0.01	0.10	−0.02	0.12	0.48	0.44	−0.00	0.01	0.15	0.12
Multilateral official flows from DAC countries[a]	0.02	0.42	0.54	0.51	0.50	0.27	0.05	0.46	0.09	0.15
Bilateral official flows from members of OPEC	–	–	–	–	–	0.37	1.03	0.54	0.38	0.18
Multilateral official flows from members of OPEC	–	–	–	–	–	–	0.04	0.07	0.12	0.02
Guaranteed private export credits from DAC countries	0.32	0.45	0.33	0.33	0.44	0.39	0.17	0.92	0.68	1.19
Other private flows, including other international bank lending, from DAC countries[c]	0.18	0.22	0.43	0.24	0.26	0.86	0.02	1.00	0.50	0.58
Suppliers' credits from socialist countries of eastern Europe	–	–	–	–	–	0.10	0.05	0.02	0.01	−0.00
Suppliers' credits from China	–	–	–	–	–	–	–	–	–	–
IMF oil facility	–	–	–	–	–	–	0.76	0.61	0.15	−0.01
TOTAL FINANCIAL FLOWS	8.73	9.51	10.86	10.54	11.27	13.46	13.64	19.89	15.60	15.51
of which:										
Total net loans and grants[d]	8.55	9.29	10.43	10.30	11.01	12.60	13.62	18.89	15.10	14.93

Source: UNCTAD secretariat estimates, based on DAC and World Bank data.

[a] From multilateral institutions financed largely by DAC countries.

[b] Net disbursements on loans only.

[c] Direct investment and bilateral portfolio investment, including Eurocurrency credits other than guaranteed export credits.

[d] Total financial flows, excluding "other private flows, including other international bank lending, from DAC countries.

TABLE 14B

All developing countries: composition of total financial flows in constant 1977 dollars, *per capita*, 1965-1977

(Net disbursements in dollars)

	Average 1965-1968	*1969*	*1970*	*1971*	*1972*	*1973*	*1974*	*1975*	*1976*	*1977*
Concessional loans and grants										
Total	9.53	9.48	9.58	9.63	8.98	9.22	8.73	10.48	9.61	9.27
DAC	9.00	9.00	9.06	9.23	8.67	7.75	6.59	7.40	6.73	6.43
of which:										
Bilateral	8.04	7.66	7.62	7.66	7.15	6.05	4.97	5.40	4.97	4.72
Multilateral[a]	0.96	1.34	1.44	1.57	1.52	1.70	1.62	2.00	1.76	1.71
of which:										
Grants	6.07	5.42	5.43	5.41	5.77	4.79	4.13	4.63	4.27	4.23
Loans	2.93	3.58	3.63	3.82	2.90	3.96	2.46	2.77	2.46	2.20
of which:										
Technical assistance	1.99	2.66	2.59	2.59	2.58	2.46	1.94	2.19	2.00	1.93
Other	7.01	6.34	6.47	6.64	6.09	5.29	4.65	5.21	4.73	4.50
OPEC	–	–	–	–	–	1.07	1.91	2.83	2.62	2.50
of which:										
Bilateral	–	–	–	–	–	1.07	1.84	2.74	2.40	1.79
Multilateral	–	–	–	–	–	–	0.07	0.09	0.22	0.71
Socialist countries of eastern Europe[b]	0.51	0.44	0.42	0.28	0.17	0.20	0.09	0.13	0.14	0.24
China[b]	0.02	0.04	0.10	0.12	0.14	0.20	0.14	0.12	0.12	0.10
Non-concessional flows										
Total	7.37	9.27	10.37	10.56	11.52	13.91	10.06	16.40	15.92	18.32
Bilateral official flows from DAC countries	0.95	0.71	0.96	1.02	1.10	1.55	0.79	0.85	0.90	0.79
Multilateral official flows from DAC countries[a]	0.33	0.70	0.85	1.02	1.01	0.98	0.95	1.23	1.16	1.14
Bilateral official flows from members of OPEC	–	–	–	–	–	0.13	0.48	0.79	0.73	0.39
Multilateral official flows from members of OPEC	–	–	–	–	–	–	0.01	0.03	0.10	0.20
Guaranteed private export credits from DAC countries	1.53	2.55	2.77	3.06	1.57	0.92	1.20	2.18	2.63	3.55
Other private flows, including other international bank lending, from DAC countries[c]	4.58	5.34	5.81	5.46	7.84	10.32	6.05	10.43	10.20	12.34
Suppliers' credits from socialist countries of eastern Europe	–0.02[d]	–0.03	–0.02	–0.00	–0.00	0.01	0.02	0.03	0.03	0.01
Suppliers' credits from China	–0.00[d]	–0.00	–	–0.00	–0.00	–0.00	–0.00	–0.00	–	–
IMF oil facility	–	–	–	–	–	–	0.56	0.86	0.17	–0.10
TOTAL FINANCIAL FLOWS	16.90	18.75	19.95	20.19	20.50	23.13	18.79	26.88	25.53	27.59
of which:										
Total net loans and grants[e]	12.32	13.41	14.14	14.73	12.66	12.81	12.74	16.45	15.33	15.25

Source: UNCTAD secretariat estimates, based on DAC and World Bank data.

[a] From multilateral institutions financed largely by DAC countries.

[b] Net disbursements on loans only.

[c] Direct investment and bilateral portfolio investment, including Eurocurrency credits other than guaranteed export credits.

[d] 1968.

[e] Total financial flows, excluding "other private flows, including other international bank lending, from DAC countries".

TABLE 15

Percentage distribution of financial flows to least developed countries and to all developing countries, by type of flow, and share of least developed countries in flows to all developing countries, by type of flow (net disbursements), average 1965-1968, 1972, 1975, 1976 and 1977

	Percentage distribution of financial flows										*Share of least developed countries in flows to all developing countries*				
	Least developed countries					*All developing countries*									
	Average 1965-1968	*1972*	*1975*	*1976*	*1977*	*Average 1965-1968*	*1972*	*1975*	*1976*	*1977*	*Average 1965-1968*	*1972*	*1975*	*1976*	*1977*
Concessional loans and grants															
Total	93.94	85.05	81.74	86.68	85.63	56.40	43.81	39.00	37.66	33.62	10.57	13.13	19.04	17.26	17.63
DAC	86.53	74.27	60.02	60.76	60.57	53.23	42.31	27.54	26.36	23.31	10.32	11.88	19.80	17.29	17.98
of which:															
Bilateral	72.66	56.29	39.61	37.24	37.71	47.55	34.87	20.10	19.47	17.10	9.70	10.92	17.90	14.34	15.26
Multilateral[a]	13.87	17.98	20.41	23.52	22.86	5.68	7.44	7.44	6.89	6.21	15.49	16.36	24.92	25.92	25.47
of which:															
Grants	66.92	67.10	36.47	38.45	39.32	35.90	28.16	17.22	16.71	15.35	11.83	16.12	19.23	17.26	17.73
Loans	19.51	7.17	23.55	22.31	21.25	17.33	14.15	10.32	9.65	7.96	7.19	3.43	20.74	17.33	18.46
of which:															
Technical assistance	24.33	25.61	13.15	16.04	14.93	11.75	12.60	8.15	7.82	6.99	13.14	13.75	14.66	15.39	14.78
Other	62.20	48.66	46.87	44.72	45.64	41.48	29.71	19.39	18.54	16.32	9.52	11.08	21.96	18.09	19.35
OPEC	–	–	15.07	19.86	21.46	–	–	10.53	10.29	9.09	–	–	13.00	14.48	16.35
of which:															
Bilateral	–	–	13.29	17.71	18.78	–	–	10.20	9.41	6.51	–	–	11.83	14.11	19.98
Multilateral	–	–	1.78	2.15	2.68	–	–	0.33	0.88	2.58	–	–	48.81	18.38	7.19
Socialist countries of eastern Europe[b]	6.61[c]	5.79	3.66	3.33	1.80	3.04	0.81	0.49	0.54	0.86	13.80[c]	48.40	67.71	45.85	14.52
China[b]	0.80[c]	4.99	2.99	2.73	1.80	0.13	0.69	0.44	0.47	0.36	40.23[c]	48.60	62.23	43.65	34.64
Non-concessional flows															
Total	6.06	14.95	18.26	13.32	14.37	43.60	56.19	61.00	62.34	66.38	0.88	1.80	2.72	1.60	1.50
Bilateral official flows from DAC countries	0.12	4.27	0.05	0.94	0.78	5.61	5.35	3.16	3.51	2.86	0.14	5.39	0.14	2.01	1.89
Multilateral official flows from DAC countries[a]	0.25	4.46	2.33	0.55	0.96	1.95	4.95	4.59	4.56	4.13	0.81	6.09	4.62	0.90	1.60
Bilateral official flows from members of OPEC	–	–	2.72	2.46	1.17	–	–	2.93	2.86	1.43	–	–	8.44	6.44	5.68
Multilateral official flows from members of OPEC	–	–	0.37	0.78	0.13	–	–	0.11	0.38	0.72	–	–	30.74	15.27	1.20
Guaranteed private export credits from DAC countries	3.63	3.89	4.62	4.35	7.67	9.07	7.66	8.13	10.29	12.85	2.54	3.44	5.16	3.17	4.13
Other private flows, including other international bank lending, from DAC countries[d]	2.06	2.33	5.01	3.19	3.75	27.09	38.24	38.79	39.96	44.71	0.48	0.41	1.17	0.60	0.58
Suppliers' credits from socialist countries of eastern Europe	–	–	0.12	0.05	–0.00	–0.11[c]	–0.01	0.10	0.11	0.04	–	–	10.60	3.54	–0.44

TABLE 15 (*continued*)

Percentage distribution of financial flows to least developed countries and to all developing countries, by type of flow, and share of least developed countries in flows to all developing countries, by type of flow (net disbursements), average 1965-1968, 1972, 1975, 1976 and 1977

	Percentage distribution of financial flows										*Share of least developed countries in flows to all developing countries*				
	Least developed countries					*All developing countries*									
	Average 1965-1968	*1972*	*1975*	*1976*	*1977*	*Average 1965-1968*	*1972*	*1975*	*1976*	*1977*	*Average 1965-1968*	*1972*	*1975*	*1976*	*1977*
Suppliers' credits from china	–	–	–	–	–	−0.01[c]	−0.00	−0.00	–	–	–	–	–	–	–
IMF oil facility	–	–	3.04	1.00	−0.09	–	–	3.19	0.67	−0.36	–	–	8.65	11.19	1.73
TOTAL FINANCIAL FLOWS	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	6.35	6.77	9.08	7.50	6.92
of which: Total net loans and grants[e]	97.94	97.67	94.99	96.81	96.25	72.91	61.76	61.21	60.04	55.29	8.53	10.70	14.10	12.09	12.05

Source: UNCTAD secretariat estimates, based on DAC and World Bank data.

Note: The figures in this table are based on the data at 1977 prices shown in tables 14A and 14B.

[a] From multilateral institutions financed largely by DAC countries.

[b] Net disbursements on loans only.

[c] 1968.

[d] Direct investment and bilateral portfolio investment, including Eurocurrency credits other than guaranteed export credits.

[e] Total financial flows excluding "other private flows, including other international bank lending, from DAC countries".

TABLE 16. — **Net flow of loans and grants to individuals least developed countries from**

Country	Net loans and grants[a] Total (millions of dollars) Average 1965-1968	1969	1970	1971	1972	1973	1974	1975	1976	1977
Afghanistan	46.1	23.7	19.5	47.3	51.4	51.1	26.6	49.1	61.9	75.0
Bangladesh	..	..	..	15.4	221.9	438.8	497.2	1 002.9	525.8	587.7
Benin	18.1	15.5	14.9	29.3	18.4	26.4	33.6	57.4	50.2	52.3
Bhutan	0.1	0.1	0.2	0.1	0.2	0.5	0.6	2.1	3.2	2.9
Botswana	15.6	13.2	14.3	17.8	88.3	83.5	43.4	48.6	52.8	42.2
Burundi	9.5	14.9	17.5	22.1	25.3	29.0	32.9	49.0	45.3	52.6
Cape Verde	–	–	–	–0.2	0.1	0.2	–0.1	8.5	13.1	24.4
Central African Empire	19.5	18.5	13.4	15.1	27.2	27.9	34.7	52.8	37.6	39.5
Chad	23.5	21.8	21.5	29.3	29.6	45.0	64.0	59.6	62.3	87.8
Comoros	..	6.3	7.9	8.8	10.2	17.6	27.5	20.0	11.7	8.6
Democratic Yemen	21.1	2.2	4.4	5.9	5.5	8.0	12.8	26.9	23.2	28.8
Ethiopia	43.5	49.2	49.5	56.3	51.9	61.5	109.3	116.5	134.5	103.2
Gambia	3.2	3.6	1.3	3.8	4.8	6.3	8.8	7.7	9.8	24.1
Guinea	14.3	16.3	33.3	29.8	51.9	50.6	2.8	–3.9	4.7	18.8
Haiti	4.8	6.0	7.2	7.0	5.6	8.6	12.2	56.8	68.6	81.9
Lao People's Democratic Republic	67.6	67.3	69.4	73.0	67.0	72.0	61.9	38.8	30.4	30.1
Lesotho	12.6	13.3	10.0	16.8	14.1	14.2	20.9	27.6	30.1	36.8
Malawi	30.6	27.5	40.3	32.7	45.4	29.4	40.5	63.8	72.3	94.6
Maldives	0.3	0.2	0.2	0.8	0.7	0.8	0.9	3.2	2.7	2.3
Mali	20.4	20.7	20.8	36.9	40.3	70.2	106.4	113.4	85.0	98.0
Nepal	11.0	10.3	23.6	24.0	30.3	35.2	33.7	45.8	49.9	73.1
Niger	22.4	36.1	41.6	49.6	41.3	73.3	135.4	122.8	128.9	117.7
Rwanda	12.3	17.8	22.6	25.0	30.1	38.6	45.6	81.3	79.2	89.8
Samoa	0.6	0.6	1.5	1.9	5.5	3.6	5.6	13.3	11.6	22.5
Somalia	21.1	35.0	30.0	33.4	28.5	34.2	36.6	72.9	70.8	115.3
Sudan	24.2	20.3	13.0	18.5	45.4	96.5	89.2	356.8	247.8	294.5
Uganda	27.3	40.4	39.1	40.2	33.7	8.7	1.9	6.9	42.8	27.1
United Republic of Tanzania	38.7	60.7	54.5	75.0	96.0	122.2	164.2	317.3	310.2	388.4
Upper Volta	19.1	24.0	22.1	29.3	34.9	57.4	93.7	84.3	84.6	108.5
Yemen	3.5	5.1	12.5	14.4	14.8	20.8	43.4	41.7	48.0	69.4
TOTAL ABOVE	531.0[b]	570.6[b]	606.1[b,c]	759.3[c]	1 120.3	1 526.1	1 786.2	2 943.9	2 399.0	2 797.9
All developing countries	7 567.0	8 920.9	9 867.6	11 465.8	10 962.4	12 713.5	15 637.1	20 996.7	21 475.6	24 933.3

Source: UNCTAD secretariat calculations, based on information from OECD/DAC secretariat.

[a] Bilateral and multilateral official loan and grant receipts, excluding the IMF oil facility, plus guaranteed export credits. Data are on a net disbursement basis.

DAC member countries and multilateral agencies financed mainly by them, 1965-1977

Per capita (dollars)										*1977 value of net loans and grants*	
Average 1965-1968	*1969*	*1970*	*1971*	*1972*	*1973*	*1974*	*1975*	*1976*	*1977*	*As a percentage of GDP 1977*	*As a percentage of imports 1977*
2.9	1.6	1.3	3.1	3.3	3.2	1.6	2.9	3.6	4.3	2.6	13.9
..	..	..	0.2	3.0	5.8	6.4	12.7	6.5	7.1	7.5	49.8
7.3	5.8	5.5	10.5	6.4	8.9	11.1	18.5	15.7	15.9	8.6	23.8
0.1	0.1	0.2	0.1	0.2	0.4	0.5	1.8	2.7	2.4	..	..
28.9	23.2	24.7	30.7	140.2	128.5	65.8	70.4	76.5	59.4	12.4	19.2
2.9	4.6	5.2	6.5	7.2	8.1	8.9	13.0	11.7	13.2	15.5	57.8
–	–	–	–0.7	0.4	0.7	–0.3	23.0	43.7	78.7	31.7	47.8
13.1	11.8	8.4	9.2	16.3	16.3	19.8	29.5	20.5	21.1	9.2	62.7
6.9	6.1	5.9	7.9	7.8	11.6	16.2	14.8	15.1	20.9	16.2	62.7
..	23.3	29.3	31.4	36.4	60.7	94.8	64.5	37.7	23.2	11.6	47.8
1.9	2.0	2.0	2.2	2.0	2.3	4.1	4.2	4.8	3.6	3.3	29.3
16.2	1.5	3.0	3.9	3.5	5.0	7.9	15.9	13.3	16.0	9.0	4.8
7.4	8.0	2.8	7.9	9.8	12.6	17.3	14.8	18.1	43.8	19.4	30.9
3.9	4.2	8.5	7.4	12.6	12.0	0.6	–0.9	1.1	4.0	2.1	10.9
1.2	1.4	1.7	1.6	1.3	1.9	2.7	12.4	14.7	17.2	6.6	22.9
24.8	23.3	23.4	24.1	21.5	22.6	19.0	11.8	9.0	8.7	8.2	55.7
14.6	14.6	10.8	17.7	14.5	14.3	20.5	26.5	28.4	34.1	22.6	23.0
7.5	6.4	9.1	7.2	9.7	6.1	8.2	12.7	14.0	17.1	11.8	40.3
2.9	1.8	1.8	7.3	6.4	6.7	6.9	24.6	19.3	16.4	14.4	57.5
4.3	4.2	4.1	7.2	7.7	13.0	19.1	19.9	14.6	16.4	16.6	61.6
1.1	0.9	2.1	2.1	2.6	2.9	2.7	3.6	3.9	5.6	5.3	40.6
6.1	9.2	10.3	12.0	9.8	17.0	30.2	26.7	47.3	24.2	13.3	78.5
3.7	5.0	6.1	6.6	7.7	9.6	11.1	19.4	18.5	20.5	21.1	78.8
4.9	4.3	10.7	12.7	36.7	24.0	37.3	88.7	77.3	150.0	39.5	54.9
8.1	12.8	10.8	11.7	9.7	11.4	11.8	23.0	21.7	34.4	19.2	38.6
1.7	1.5	0.9	1.3	3.1	6.0	5.8	22.7	15.4	23.8	6.0	27.8
3.1	4.2	4.0	4.0	3.2	0.8	0.2	0.6	3.6	2.2	0.8	10.8
3.2	4.7	4.1	5.5	6.9	8.5	11.1	20.7	19.9	24.1	13.0	51.9
3.8	4.5	4.1	5.3	6.2	10.0	15.9	14.0	13.7	17.2	22.0	51.9
0.7	0.9	2.2	2.4	2.4	3.3	6.7	6.3	7.0	9.8	3.4	6.7
3.9[b]	4.0[b]	4.1[b]	3.4	4.9	6.6	7.5	12.0	9.6	10.9	7.4	31.8
4.9	5.2	5.6	6.4	5.9	6.7	8.0	10.5	10.5	11.9	2.2	9.9

[b] Excluding Bangladesh.

[c] Excluding approximately $40 million from France to Benin, Chad, Mali, Niger and Upper Volta. The available data do not show the allocation among them.

TABLE 17. — **Total concessional assistance and grants to least developed countries**

(Net disbursements in millions of dollars)

Country	*Total concessional assistance* Average 1965-1968[a]	1969	1970	1971	1972	1973	1974	1975	1976	1977
Afghanistan	43.1	27.6	28.4	47.4	56.0	57.1	31.7	53.7	63.9	75.0
Bangladesh	..	..	..	15.4	223.8	421.7	486.8	956.4	521.1	583.8
Benin	17.4	13.3	14.9	29.3	20.1	26.6	33.2	52.0	50.9	44.8
Bhutan	0.1	0.1	0.2	0.1	0.2	0.5	0.6	2.1	3.2	2.9
Botswana	15.6	13.2	14.2	17.7	31.5	36.6	36.6	46.0	47.8	47.1
Burundi	9.7	15.0	17.8	21.8	25.9	26.9	33.4	47.1	44.5	46.6
Cape Verde	–	–	–	–	–	–	–	8.7	13.1	24.4
Central African Empire	17.2	19.8	14.4	15.6	25.7	25.7	35.6	55.4	38.1	40.3
Chad	19.7	23.6	22.4	30.5	30.9	42.2	65.3	57.1	60.9	81.9
Comoros	..	6.3	7.9	8.8	10.2	17.6	27.3	21.7	11.5	8.6
Democratic Yemen	21.0	2.1	4.3	4.4	5.6	7.5	10.4	20.2	23.2	32.0
Ethiopia	31.9	38.9	40.0	47.3	47.6	66.7	120.0	119.3	140.6	111.7
Gambia	3.2	3.6	1.3	3.6	5.0	6.5	8.8	7.8	9.8	18.0
Guinea	13.6	13.4	10.3	9.6	4.8	11.3	8.8	9.4	11.5	17.1
Haiti	5.1	5.1	7.9	6.3	6.8	8.2	14.3	59.3	71.7	83.2
Lao People's Democratic Republic	67.7	66.8	69.3	72.4	66.8	75.9	60.1	38.9	28.4	30.1
Lesotho	12.5	13.3	9.9	16.7	14.1	14.2	20.9	27.4	30.1	36.8
Malawi	30.2	27.7	36.9	31.6	36.2	29.7	41.7	63.9	64.1	78.3
Maldives	0.3	0.2	0.2	0.8	0.6	0.6	0.6	3.0	1.5	2.0
Mali	20.4	23.1	21.3	30.3	38.3	70.3	104.2	115.3	86.0	96.9
Nepal	12.4	10.8	23.6	23.9	30.2	35.4	32.2	45.4	50.0	71.0
Niger	23.2	33.3	31.6	38.0	43.1	70.5	136.0	124.1	125.4	90.3
Rwanda	12.5	17.6	21.8	25.2	30.1	38.9	45.6	81.6	78.9	90.3
Somalia	22.0	32.9	27.8	30.7	23.7	35.7	31.9	72.7	67.4	67.9
Samoa	0.6	0.6	1.5	2.0	3.2	3.6	5.6	13.4	11.7	18.9
Sudan	19.5	9.0	6.6	10.5	37.2	42.6	54.4	110.3	115.6	109.2
Uganda	22.1	27.6	33.1	31.8	29.5	14.8	11.3	13.1	19.9	13.9
United Republic of Tanzania	39.6	39.3	51.3	62.4	61.3	100.2	155.4	288.3	267.0	326.9
Upper Volta	19.2	23.9	22.1	28.8	34.4	56.9	90.6	86.1	83.1	107.3
Yemen	3.4	2.7	12.3	14.9	14.8	20.7	39.3	36.6	47.5	64.4
TOTAL ABOVE	*(502.5)*[c]	*510.8*[c]	*553.3*[c]	677.8	957.6	1 365.0	1 742.6	2 636.2	2 188.4	2 421.6
All developing countries	(5 765.5)	6 195.0	6 555.3	7 383.4	7 694.7	8 797.8	10 806.6	13 315.2	12 659.4	13 467.7

Source: UNCTAD secretariat calculations, based on information from the OECD/DAC secretariat.

[a] Total bilateral official flows and multilateral concessional assistance in the case of individual least developed countries. Total concessional assistance in the case of total least developed countries and total developing countries.

from DAC member countries and multilateral agencies financed mainly by them (1965-1977)

Of which: *grants*										
1965-1968[a]	*1969*	*1970*	*1971*	*1972*	*1973*	*1974*	*1975*	*1976*	*1977*	*Leading donors in 1977*[b]
..	24.5	27.2	32.4	47.2	38.1	26.1	36.3	32.3	47.8	IDA, United Nations, United States of America
..	..	..	15.4	210.3	266.2	281.2	362.4	227.4	307.5	IDA, United States of America, Japan
..	13.9	15.3	19.0	25.7	17.5	24.0	39.9	33.0	27.2	France, United States of America, IDA, EEC/EDF
..	0.1	0.2	0.1	0.2	0.5	0.6	0.9	3.2	2.9	United Nations, Switzerland
..	13.2	11.8	10.2	7.3	14.3	22.4	30.9	37.0	38.9	Sweden, United Kingdom, United Nations, Norway
..	14.4	17.3	21.2	25.3	26.6	32.7	46.9	43.4	39.3	Belgium, United Nations, EEC/EDF, France
..	–	–	–	–	–	–	8.7	13.1	24.4	Sweden, United Nations, United States of America, EEC/EDF
..	17.5	14.6	13.0	29.2	24.5	34.4	54.6	36.1	39.7	France, EEC/EDF, United Nations
..	23.7	21.5	28.6	40.6	39.9	61.7	50.7	52.8	59.3	France, United States of America, IDA
..	6.5	7.9	8.6	10.0	17.0	26.0	21.0	11.2	7.9	EEC/EDF, United Nations
..	2.1	4.2	4.0	5.1	6.9	8.6	16.4	15.8	23.1	United Nations, United Kingdom, IDA, EEC/EDF, IMF
..	25.5	25.6	23.9	28.7	42.2	85.0	70.0	77.8	73.4	IDA, Sweden, United Nations
..	1.7	0.8	2.5	4.1	3.7	6.8	5.0	7.1	12.6	United Kingdom, Fed. Rep. of Germany, Canada, United Nations
..	4.8	4.7	3.9	4.4	1.3	3.6	3.8	6.2	8.3	IDA, United Nations, United States of America, Netherlands
..	4.2	5.8	6.0	7.0	8.2	12.6	32.7	33.9	32.8	United States of America, IDB, IDA
.	65.7	67.7	70.9	66.2	71.6	57.8	31.3	17.8	17.5	Sweden, Fed. Rep. of Germany, Japan, Netherlands, United Nations
..	12.7	9.9	16.4	15.4	14.3	19.5	25.5	27.6	30.9	United Nations, IDA, Canada, United States of America, United Kingdom
..	16.0	15.7	22.8	13.6	12.4	15.7	21.7	32.1	28.4	United Kingdom, Canada, IDA, Fed. Rep. of Germany
..	0.2	0.2	0.8	0.6	0.6	0.6	1.2	1.5	2.0	United Nations, Japan, Australia, United Kingdom
..	21.6	19.7	25.2	46.2	60.9	94.6	96.9	59.4	68.6	France, Fed. Rep. of Germany, IDA, EEC/EDG
..	9.9	23.9	19.7	25.5	28.8	26.6	36.6	38.0	53.2	United Nations, IDA, United States of America, United Kingdom
..	23.2	25.8	28.2	38.4	61.9	124.0	102.8	100.4	64.8	France, EEC/EDF, Fed. Rep. of Germany
..	17.7	21.7	25.1	29.0	36.4	41.1	74.8	64.1	73.9	Belgium, EEC/EDF, IDA
..	1.7	19.0	27.6	20.5	29.2	26.3	63.7	57.6	58.2	EEC/EDF, United Nations, IDA, Italy
..	0.6	1.0	1.1	1.5	2.9	5.4	8.7	9.6	14.9	Australia, New Zealand, AsDB, EEC/EDF
..	9.2	7.9	12.6	38.0	33.5	32.9	62.4	49.8	71.2	United Nations, IDA, Netherlands
..	5.3	15.9	18.9	33.9	12.5	8.7	9.3	10.9	13.3	United Nations, EEC/EDF
..	4.2	27.5	30.6	44.5	64.9	99.4	187.9	195.7	215.0	Sweden, Netherlands, IDA, Denmark
..	2.2	21.2	28.4	38.0	50.8	77.5	73.3	63.9	79.3	France, United States of America, Fed. Rep. of Germany, IDA, United Nations
..	2.7	9.7	8.9	8.7	9.6	22.0	25.4	26.3	35.8	IDA, Fed. Rep. of Germany, United Nations, United States of America
..	415.0[c]	443.7[c]	526.0	865.1	997.2	1 277.8	1 601.7	1 385.0	1 572.1	
..	3 732.8	3 932.7	4 330.4	5 121.9	5 442.2	6 765.9	8 327.4	8 023.0	8 866.2	

[b] Accounting each one for 10 per cent or more of the total provided to the given least developed country.

[c] Excluding Bangladesh.

TABLE 18. — **Total bilateral ODA and grants to individual least developed countries**

Country	Bilateral ODA									
	Average 1965-1968[a]	*1969*	*1970*	*1971*	*1972*	*1973*	*1974*	*1975*	*1976*	*1977*
Afghanistan	39.4	22.4	21.4	37.9	40.9	43.2	16.9	32.6	34.8	27.6
Bangladesh	..	..	..	9.4	199.7	307.0	344.2	703.9	319.8	384.0
Benin	12.0	8.0	8.2	20.8	12.1	13.5	18.5	29.1	27.5	26.6
Bhutan	0.1	0.1	0.2	0.1	0.2	0.5	0.3	0.6	1.0	0.6
Botswana	14.3	13.1	9.3	13.6	29.2	30.9	29.9	38.6	40.8	37.9
Burundi	7.3	10.6	11.6	13.5	16.9	15.2	18.7	26.4	25.9	28.8
Cape Verde	–	–	–	–	–	–	–	2.1	6.8	15.8
Central African Empire	12.5	13.7	9.2	8.5	14.1	15.1	18.6	33.3	25.7	30.2
Chad	13.9	14.2	14.8	21.9	24.9	26.4	37.9	28.2	43.2	49.6
Comoros	..	6.3	6.8	8.1	10.0	17.0	27.1	17.5	8.4	1.8
Democratic Yemen	20.8	1.5	1.3	2.1	1.7	2.8	5.0	6.1	9.0	6.9
Ethiopia	26.3	30.3	32.7	37.6	37.7	49.6	79.8	73.1	72.9	59.0
Gambia	3.1	3.4	1.0	2.4	3.2	3.3	3.7	3.6	5.4	12.8
Guinea	12.4	10.8	7.0	6.4	1.3	8.8	6.7	5.5	4.4	5.1
Haiti	4.2	3.3	5.2	4.3	5.0	5.0	9.4	24.8	32.1	39.6
Lao People's Democratic Republic	66.9	66.1	68.5	71.0	65.5	72.5	57.3	32.6	24.0	26.7
Lesotho	11.1	11.3	6.2	12.0	9.6	8.2	12.6	14.7	18.0	20.7
Malawi	29.2	21.8	25.9	22.9	26.7	22.0	30.5	47.1	47.0	54.8
Maldives	0.2	0.1	0.1	0.7	0.5	0.4	0.2	2.0	0.6	1.2
Mali	10.2	14.4	9.8	16.6	22.7	34.9	60.2	55.7	53.3	60.9
Nepal	11.0	8.7	20.4	19.3	24.7	25.1	20.5	28.6	29.2	37.4
Niger	16.6	26.2	21.2	24.7	26.3	42.1	82.6	80.2	80.1	59.4
Rwanda	10.1	13.9	16.7	19.8	23.3	26.2	31.6	53.7	56.6	61.4
Samoa	0.3	0.2	0.3	0.3	1.3	2.1	4.3	8.8	7.3	11.1
Somalia	17.2	21.4	17.9	21.7	11.6	19.3	7.3	23.3	20.1	25.2
Sudan	15.7	2.5	–0.2	–1.8	10.2	16.8	33.2	60.2	54.4	55.8
Uganda	20.4	18.1	24.4	20.3	21.4	9.1	6.8	4.5	9.4	3.6
United Republic of Tanzania	32.8	27.9	37.9	49.8	53.4	90.5	140.2	234.8	212.0	257.3
Upper Volta	13.4	15.1	13.7	15.9	22.6	34.7	50.2	53.1	60.1	71.7
Yemen	2.8	1.7	7.9	9.2	9.0	14.4	27.4	15.0	11.3	34.2
TOTAL ABOVE	(423.5)[b]	387.1[b]	399.4[b,c]	489.0[c]	725.7	956.6	1 181.6	1 739.7	1 341.1	1 507.7
All developing countries	5 149.9)	5 269.7	5 517.4	6 129.4	6 342.3	6 862.9	8 148.1	9 718.5	9 353.2	9 880.1

Source: UNCTAD secretariat calculations, based on information from OECD/DAC secretariat.

[a] Total bilateral official flows in the case of individual least developed countries. Estimates of bilateral ODA in the case of total least developed countries and total developing countries.

from DAC member countries, 1965-1977 *(Net disbursements in millions of dollars)*

Of which: *grants*									
1965-1968	*1969*	*1970*	*1971*	*1972*	*1973*	*1974*	*1975*	*1976*	*1977*
..	19.3	20.1	24.6	35.2	25.5	14.5	19.7	18.8	27.9
..	..	..	9.4	186.1	220.6	226.8	254.9	147.5	222.3
..	8.8	8.7	12.7	20.2	11.3	13.7	22.5	16.1	16.9
..	0.1	0.2	0.1	0.2	0.5	0.3	0.6	1.0	0.6
..	13.1	8.5	6.8	4.9	10.7	17.9	24.8	31.5	31.6
..	10.3	11.4	13.5	16.8	15.2	18.5	26.4	26.0	27.5
..	–	–	–	–	–	–	2.1	6.8	15.8
..	11.4	9.6	8.2	21.1	15.2	18.3	33.3	24.0	30.8
..	14.8	14.0	21.5	35.1	25.6	36.9	27.2	40.3	45.7
..	6.5	6.8	7.9	9.9	16.4	25.8	16.9	8.0	1.1
..	1.5	1.2	2.0	1.6	2.7	4.2	4.1	8.5	6.0
..	21.3	21.1	17.9	23.2	33.6	53.9	42.5	47.1	55.1
..	1.5	0.5	1.4	2.9	2.3	2.9	1.9	3.7	10.4
..	2.2	1.2	0.7	1.0	−1.0	1.5	..	0.3	2.6
..	3.3	4.2	4.2	4.9	4.9	9.4	21.8	24.7	26.5
..	65.0	66.8	70.0	65.0	70.0	56.0	27.5	13.8	14.0
..	11.1	6.0	11.5	10.9	8.3	12.6	14.6	17.8	20.6
..	14.9	14.3	21.4	11.8	9.4	12.0	16.4	27.3	21.3
..	0.1	0.1	0.7	0.4	0.4	0.2	0.8	0.6	1.2
..	14.7	9.4	15.0	35.6	29.9	57.2	52.0	42.4	49.1
..	7.8	20.8	16.2	21.3	22.9	19.4	25.8	27.6	38.7
..	17.0	17.5	16.6	24.6	36.9	72.5	61.3	58.7	41.4
..	14.0	16.7	19.8	23.3	26.1	31.5	52.4	50.4	56.5
..	0.2	0.3	0.3	0.4	2.0	4.3	7.6	7.2	11.0
..	12.7	12.3	20.2	9.6	15.6	8.3	24.0	18.5	25.9
..	2.9	1.3	0.4	11.1	9.3	13.9	27.4	27.5	43.1
..	11.8	12.6	15.4	32.1	9.5	5.4	3.5	3.1	4.0
..	19.8	23.5	26.2	39.4	58.2	89.9	151.9	169.4	191.9
..	13.4	12.9	15.4	27.7	32.0	42.7	46.8	48.1	62.0
..	1.7	5.5	3.3	2.9	4.2	11.2	11.0	8.1	22.4
..	321.2[b]	327.5[b,c]	383.3[c]	679.2	718.2	881.7	1 021.7	924.8	1 123.9
..	3 228.8	3 283.8	3 589.4	4 317.9	4 419.5	5 305.8	6 214.3	6 418.6	7 074.7

[b] Excluding Bangladesh.

[c] Excluding approximately $40 million from France to Benin, Chad, Mali, Niger and Upper Volta. The available data do not show the allocation among these countries.

TABLE 19. — **Total assistance to individual least developed countries from multilateral agencies**

Country	Total multilateral assistance									
	1965-1968	*1969*	*1970*	*1971*	*1972*	*1973*	*1974*	*1975*	*1976*	*1977*
Afghanistan	3.2	4.9	7.0	9.4	15.0	14.2	14.8	21.0	29.1	47.4
Bangladesh	..	..	..	6.0	24.1	119.9	143.0	308.4	201.4	199.8
Benin	5.4	5.3	6.7	8.5	8.0	13.2	14.9	23.0	24.6	21.7
Bhutan	–	–	–	–	–	0.0	0.3	1.5	2.2	2.3
Botswana	1.3	0.1	4.9	4.1	14.7	19.1	12.4	10.1	9.1	12.1
Burundi	2.2	4.1	6.0	8.0	8.7	11.4	14.4	21.0	20.1	18.9
Cape Verde	–	–	–	–	–	–	–	6.6	6.3	8.6
Central African Empire	4.7	6.1	5.2	7.0	11.5	10.6	17.0	22.6	12.7	10.1
Chad	5.8	9.4	7.6	8.6	6.0	15.8	27.4	28.9	17.7	32.3
Comoros	..	..	1.1	0.7	0.2	0.6	0.2	4.2	3.1	6.8
Democratic Yemen	0.2	0.6	3.0	2.3	3.8	4.8	5.4	14.1	14.2	25.1
Ethiopia	9.7	15.6	10.2	18.9	16.1	21.3	38.4	48.3	65.9	49.0
Gambia	0.1	0.2	0.3	1.2	1.7	3.1	5.1	4.2	4.4	5.2
Guinea	1.4	6.0	18.6	27.4	25.6	8.4	0.4	5.2	5.0	11.6
Haiti	0.6	1.6	2.4	1.6	1.8	3.1	4.9	34.5	39.6	43.6
Lao People's Democratic Republic	0.7	0.7	0.9	1.4	1.3	3.4	2.8	6.3	4.4	3.4
Lesotho	1.4	2.0	3.8	4.8	4.5	6.0	8.3	12.7	12.1	16.1
Malawi	0.9	5.9	11.1	10.2	10.4	8.5	11.4	17.1	20.1	32.2
Maldives	0.1	0.1	0.1	0.1	0.2	0.2	0.4	1.0	0.9	0.8
Mali	9.8	8.7	11.5	14.3	15.7	35.5	43.9	59.4	32.6	36.5
Nepal	0.6	2.0	3.2	4.7	5.6	10.4	13.0	16.9	20.7	35.7
Niger	6.4	7.1	10.5	13.3	16.8	29.1	53.9	44.1	45.2	30.8
Rwanda	2.2	3.7	5.1	5.4	6.8	12.6	14.0	27.9	22.3	29.2
Samoa	0.3	0.4	1.2	1.7	1.9	1.5	1.3	4.6	4.4	7.8
Somalia	4.5	11.5	9.9	9.0	12.3	16.7	25.2	50.9	47.4	42.7
Sudan	7.6	14.0	12.3	13.6	27.5	21.8	17.0	47.3	61.6	50.3
Uganda	1.2	9.0	8.2	11.0	7.7	7.9	4.7	9.5	13.1	12.8
United Republic of Tanzania	3.8	13.1	14.6	19.7	23.5	19.0	23.3	93.1	66.7	93.6
Upper Volta	5.6	8.8	8.3	13.4	12.2	23.3	41.3	33.0	24.0	35.5
Yemen	0.6	1.0	4.3	5.7	5.8	6.3	11.9	21.6	36.2	30.2
TOTAL ABOVE	80.3[a]	141.9[a]	178.0[a]	232.0	289.4	447.8	571.0	999.0	867.1	952.1
All developing countries	827.1	1 410.0	1 653.2	2 068.6	2 252.8	3 041.7	4 219.7	5 816.3	5 496.1	5 974.0

Source: UNCTAD secretariat calculations, based on information from the OECD/DAC secretariat.

mainly financed by DAC member countries, 1965-1977 *(Net disbursements in millions of dollars)*

Of which: *non-concessional*									
1965-1968	*1969*	*1970*	*1971*	*1972*	*1973*	*1974*	*1975*	*1976*	*1977*
–0.5	–0.3	–	–	–	0.3	0.0	0.0	–	–
..	..	..	–	–	5.2	0.4	55.9	0.1	0.0
–0.0	–	–	–	–	0.1	0.2	0.1	1.2	3.5
–	–	–	–	–	–	–	–	–	–
–	–	–	–	12.4	13.4	5.7	2.7	2.1	2.9
–0.2	–0.3	–0.3	–0.3	–0.3	–0.3	–0.3	–0.3	1.5	1.1
–	–	–	–	–	–	–	–	–	–
–	–	–	–	–	–	–	0.5	0.3	–
–0.0	–	–	–	–	–	–	–	–	–
..	..	–	–	–	–	–	–	–	–
–	–	–	–	–	–	–	–	–	–
4.2	7.0	2.9	9.2	6.2	4.2	–1.8	2.1	–1.8	–3.7
–0.0	–	–	–	–	–	–	–	–	0.0
0.2	3.4	15.3	24.1	22.1	5.9	–1.7	1.3	–2.1	–0.4
–0.3	–0.2	–0.2	–0.4	–0.1	–	–	–	–	–
–0.1	–	–	–	–	–	–	–	–	–
–	–	–	–	–	–	–	–	–	–
–0.2	–	0.1	1.5	0.8	0.8	0.2	0.3	3.0	8.7
–	–	–	–	–	–	–	–	–	–
–0.4	–	–	0.6	0.1	0.1	–0.1	–0.2	–0.1	0.5
–0.7	–0.1	–	0.1	0.1	0.1	1.3	0.1	–0.1	2.1
–0.2	–	–	–	–	0.7	0.5	0.2	–0.1	–0.1
–0.2	–	–	–	–	–	–	–	–	0.3
–	–	–	–	–	–	–	–	–	–
0.3	–	–	–	0.2	0.3	0.6	1.5	0..1	–0.0
3.7	7.5	5.6	1.3	0.5	–4.0	–4.2	–2.8	0.4	–3.1
–0.4	–0.5	–0.5	–0.5	–0.4	2.2	0.2	0.9	2.6	2.5
–3.0	1.7	1.2	7.1	15.6	9.3	8.1	39.6	11.7	24.0
–0.2	–	–	0.5	0.3	1.1	0.9	–	1.0	–0.1
–	–	–	–	–	–	–	–	–	–
1.4[a]	18.2[a]	24.1[a]	43.2	57.5	39.4	10.0	102.5	19.8	38.2
211.5	484.7	615.2	814.6	900.4	1 106.8	1 561.2	2 219.6	2 189.9	2 386.4

[a] Excluding Bangladesh.

TABLE 20. — **Total concessional assistance and grants to individual least developed countries from multilateral agencies**

Country	*Multilateral concessional assistance*									
	1965-1968	*1969*	*1970*	*1971*	*1972*	*1973*	*1974*	*1975*	*1976*	*1977*
Afghanistan	3.7	5.2	7.0	9.4	15.0	13.9	14.8	21.0	29.1	47.4
Bangladesh	..	..	..	6.0	24.1	114.7	142.6	252.5	201.3	199.8
Benin	5.4	5.3	6.7	8.5	8.0	13.1	14.7	22.9	23.4	18.2
Bhutan	–	–	–	–	–	0.0	0.3	1.5	2.2	2.3
Botswana	1.3	0.1	4.9	4.1	2.3	5.7	6.7	7.4	7.0	9.2
Burundi	2.4	4.4	6.3	8.3	9.0	11.7	14.7	20..7	18.6	17.8
Cape Verde	–	–	–	–	–	–	–	6.6	6.3	8.6
Central African Empire	4.7	6.1	5.2	7.0	11.5	10.6	17.0	22.1	12.4	10.1
Chad	5.8	9.4	7.6	8.6	6.0	15.8	27.4	28.9	17.7	32.3
Comoros	..	..	1.1	0.7	0.2	0.6	0.2	4.2	3.1	6.8
Democratic Yemen	0.2	0.6	3.0	2.3	3.8	4.8	5.4	14.1	14.2	25.1
Ethiopia	5.6	8.6	7.3	9.7	9.9	17.1	40.2	46.2	67.7	52.7
Gambia	0.1	0.2	0.3	1.2	1.7	3.1	5.1	4.2	4.4	5.2
Guinea	1.2	2.6	3.3	3.3	3.5	2.5	2.1	3.9	7.1	12.0
Haiti	0.9	1.8	2.6	2.0	1.9	3.1	4.9	34.5	39.6	43.6
Lao People's Democratic Republic	0.8	0.7	0.9	1.4	1.3	3.4	2.8	6.3	4.4	3.4
Lesotho	1.4	2.0	3.8	4.8	4.5	6.0	8.3	12.7	12.1	16.1
Malawi	1.0	5.9	11.0	8.7	9.6	7.7	11.2	16.8	17.1	23.5
Maldives	0.1	0.1	0.1	0.1	0.2	0.2	0.4	1.0	0.9	0.8
Mali	10.2	8.7	11.5	13.7	15.6	35.4	44.0	59.6	32.7	36.0
Nepal	1.4	2.1	3.2	4.6	5.5	10.3	11.7	16.8	20.8	33.6
Niger	6.6	7.1	10.5	13.3	16.8	28.4	53.4	43.9	45.3	30.9
Rwanda	2.4	3.7	5.1	5.4	6.8	12.6	14.0	27.9	22.3	28.9
Samoa	0.3	0.4	1.2	1.7	1.9	1.5	1.3	4.6	4.4	7.8
Somalia	4.8	11.5	9.9	9.0	12.1	16.4	24.6	49.4	47.3	42.7
Sudan	3.8	6.5	6.7	12.3	27.0	25.8	21.2	50.1	61.2	53.4
Uganda	1.7	9.5	8.7	11.5	8.1	5.7	4.5	8.6	10.5	10.3
United Republic of Tanzania	6.8	11.4	13.4	12.6	7.9	9.7	15.2	53.5	55.0	69.6
Upper Volta	5.8	8.8	8.3	12.9	11.9	22.2	40.4	33.0	23.0	35.6
Yemen	0.6	1.0	4.3	5.7	5.8	6.3	11.9	21.6	36.2	30.2
TOTAL ABOVE	79.0[a]	123.7[a]	153.9[a]	188.8	231.9	408.4	561.0	896.5	847.3	913.9
All developing countries	615.6	925.3	1 038.0	1 254.0	1 352.4	1 934.9	2 658.5	3 596.7	3 306.2	3 587.6

Source: UNCTAD secretariat calculations, based on information from the OECD/DAC secretariat.

financed mainly by DAC member countries, 1965-1977 *(Net disbursements in millions of dollars)*

Of which: *grants*									
1965-1968	*1969*	*1970*	*1971*	*1972*	*1973*	*1974*	*1975*	*1976*	*1977*
..	5.2	7.1	7.8	12.0	12.6	11.6	16.6	13.5	19.9
..	..	..	6.0	24.2	45.6	54.4	107.5	79.9	85.2
..	5.1	6.6	6.3	5.5	6.2	10.3	17.4	16.9	10.3
..	–	–	–	–	0.0	0.3	0.3	2.2	2.3
..	0.1	3.3	3.4	2.4	3.6	4.5	6.1	5.5	7.3
..	4.1	5.9	7.7	8.5	11.4	14.2	20.5	17.4	11.8
..	–	–	–	–	–	–	6.6	6.3	8.6
..	6.1	5.0	4.8	8.1	9.3	16.1	21.3	12.1	8.9
..	8.9	7.5	7.1	5.5	14.3	24.8	23.5	12.5	13.6
..	..	1.1	0.7	0.1	0.6	0.2	4.1	3.2	6.8
..	0.6	3.0	2.0	3.5	4.2	4.4	12.3	7.3	17.1
..	4.2	4.5	6.0	5.5	8.6	31.1	27.5	30.7	18.3
..	0.2	0.3	1.1	1.2	1.4	3.9	3.1	3.4	2.2
..	2.6	3.5	3.2	3.4	2.3	2.1	3.8	5.9	5.7
..	0.9	1.6	1.8	2.1	3.3	3.2	10.9	9.2	6.3
..	0.7	0.9	0.9	1.2	1.6	1.8	3.8	4.0	3.5
..	1.6	3.9	4.9	4.5	6.0	6.9	10.9	9.8	10.3
..	1.1	1.4	1.4	1.8	3.0	3.7	5.3	4.8	7.1
..	0.1	0.1	0.1	0.2	0.2	0.4	0.4	0.9	0.8
..	6.9	10.3	10.2	10.6	31.0	37.4	44.9	17.0	19.5
..	2.1	3.1	3.5	4.2	5.9	7.2	10.8	10.4	14.5
..	6.2	8.3	11.6	13.8	25.0	51.5	41.5	41.7	23.4
..	3.7	5.0	5.3	5.7	10.3	9.6	22.4	13.7	17.4
..	0.4	0.7	0.8	1.1	0.9	1.1	1.1	2.4	3.9
..	9.0	6.7	7.4	10.9	13.6	18.0	39.7	39.1	32.3
..	6.3	6.6	12.2	26.9	24.2	19.0	35.0	22.3	28.1
..	3.5	3.3	3.5	1.8	3.0	3.3	5.8	7.8	9.3
..	4.4	4.0	4.4	5.1	6.7	9.5	36.0	26.3	23.1
..	8.8	8.3	13.0	10.3	18.8	34.8	26.5	15.8	17.3
..	1.0	4.2	5.6	5.8	5.4	10.8	14.4	18.2	13.4
..	93.8[a]	116.2[a]	142.7	185.9	279.0	396.1	580.0	460.2	448.2
..	504.0	648.9	741.0	804.0	1 022.7	1 460.1	2 113.1	1 604.5	1 791.5

[a] Excluding Bangladesh.

TABLE 21. — **Technical assistance disbursements to individual least developed countries**

Country	*Total (millions of dollars)*									
	Average 1962-1966	*1969*	*1970*	*1971*	*1972*	*1973*	*1974*	*1975*	*1976*	*1977*
Afghanistan	15.7	19.6	20.9	24.1	24.3	24.0	21.5	25.1	20.3	27.8
Bangladesh	..	..	..	–	10.4	11.7	29.6	58.2	60.0	26.3
Benin	1.7	7.2	6.0	10.0	8.3	10.2	12.4	20.0	15.9	13.5
Bhutan	–	0.1	0.1	0.1	0.1	0.2	0.5	0.6	2.7	2.1
Botswana	1.1[a]	3.3	2.5	4.8	4.5	7.8	9.5	13.7	15.5	17.8
Burundi	2.8	9.7	10.5	11.4	13.6	15.5	17.1	23.1	23.0	25.5
Cape Verde	..	–	–	–	–	–	–	5.1	2.2	2.8
Central African Empire	1.5	8.7	8.2	8.3	12.2	12.1	12.9	19.2	19.4	20.6
Chad	1.6	10.6	10.0	12.3	15.0	20.1	19.6	25.3	22.0	24.6
Comoros	..	4.5	4.8	6.4	3.0	8.6	13.4	7.0	2.3	2.3
Democratic Yemen	1.8	1.5	2.3	3.4	4.7	4.9	7.0	9.1	11.3	10.5
Ethiopia	10.1	22.5	19.6	20.9	22.2	28.5	34.6	33.3	31.5	30.3
Gambia	0.6[a]	0.9	0.6	1.1	1.6	1.9	2.1	2.6	4.2	3.2
Guinea	4.4	4.1	4.2	4.2	1.0	1.1	1.3	3.2	5.5	6.0
Haiti	1.9	3.1	3.6	3.6	4.7	7.0	6.5	11.8	13.5	12.3
Lao People's Democratic Republic	18.2	38.8	39.6	41.7	35.9	42.3	29.6	14.9	4.5	5.0
Lesotho	1.4[a]	1.7	2.5	2.8	3.2	5.0	6.5	8.7	12.1	12.6
Malawi	6.1[b]	9.1	8.9	9.8	11.1	11.6	14.6	16.3	17.4	17.4
Maldives	–	0.2	0.2	0.2	0.4	0.4	0.5	0.6	1.1	1.0
Mali	2.9	7.0	8.1	9.2	11.9	12.9	18.9	24.4	23.1	25.4
Nepal	5.3	7.4	7.9	10.9	10.3	12.5	14.0	24.6	20.3	26.9
Niger	2.0	11.8	11.2	12.0	14.5	14.0	24.4	29.1	28.0	29.9
Rwanda	2.6	9.7	11.8	13.7	16.2	19.3	23.4	31.5	32.3	41.0
Samoa	0.3[a]	0.5	0.9	1.0	1.4	1.6	3.7	4.0	4.7	5.7
Somalia	9.0	11.7	10.5	10.2	9.7	12.0	12.7	19.4	15.9	19.1
Sudan	7.0	7.5	6.4	6.1	21.6	19.2	15.5	28.0	31.0	37.5
Uganda	9.3	15.2	14.4	17.8	16.1	11.9	7.9	9.1	8.3	7.7
United Republic of Tanzania	14.4	19.5	21.3	23.8	34.7	41.3	47.6	60.2	76.7	79.8
Upper Volta	2.6	9.3	8.2	9.5	12.8	15.3	19.5	32.5	37.6	37.6
Yemen	2.0[a]	1.2	2.4	3.0	4.8	6.5	9.9	16.8	15.6	24.9
TOTAL ABOVE	126.3	246.4	247.6	282.4	330.2	379.4	436.7	577.4	577.9	597.1
All developing countries	1 080.7	1 828.5	1 875.2	2 068.7	2 292.4	2 789.6	3 187.0	3 938.9	3 754.9	4 038.9

Source: UNCTAD secretariat calculations, based on information from the OECD/DAC secretariat.

a 1965-1966 average.

b 1964-1966 average.

(bilateral contributions from DAC member countries plus contributions from multilateral agencies), 1962-1977

Per capita *(dollars)*									
Average 1962-1966	*1969*	*1970*	*1971*	*1972*	*1973*	*1974*	*1975*	*1976*	*1977*
1.1	1.3	1.4	1.6	1.6	1.5	1.3	1.5	1.2	1.6
..	..	..	–	0.1	0.2	0.4	0.7	0.7	0.3
0.7	2.7	2.2	3.6	2.9	3.5	4.1	6.4	5.0	4.1
–	0.1	0.1	0.1	0.1	0.2	0.4	0.5	2.3	1.7
1.9[a]	5.8	4.3	8.3	7.1	12.0	14.4	19.9	22.5	25.1
0.9	3.0	3.1	3.3	3.9	4.3	4.6	6.1	6.0	6.4
..	–	–	–	–	–	–	17.0	7.3	9.0
1.1	5.5	5.1	5.1	7.3	7.1	7.4	10.7	10.6	11.0
0.5	3.0	2.7	3.3	4.0	5.2	5.0	6.3	5.3	5.9
..	17.3	17.8	22.9	10.7	29.7	46.2	22.6	7.4	6.2
1.5	1.0	1.6	2.3	3.0	3.1	4.3	5.4	6.5	5.8
0.5	0.9	0.8	0.8	0.9	1.1	1.3	1.2	1.1	1.0
1.9[a]	2.0	1.3	2.3	3.3	3.8	4.1	5.0	7.8	5.8
1.3	1.1	1.1	1.0	0.2	0.3	0.3	0.7	1.2	1.3
0.4	0.7	0.8	0.8	1.1	1.6	1.4	2.6	2.9	2.6
7.1	13.4	13.4	13.8	11.5	13.3	9.1	4.5	1.3	1.4
1.6[a]	1.9	2.7	2.9	3.3	5.1	6.4	8.4	11.4	11.7
1.6[b]	2.1	2.0	2.2	2.4	2.4	3.0	3.2	3.4	3.1
–	1.8	1.8	1.8	3.6	3.3	3.8	4.6	7.9	7.1
0.7	1.4	1.6	1.8	2.3	2.4	3.4	4.3	4.0	4.2
0.5	0.7	0.7	0.9	0.9	1.0	1.1	2.0	1.6	2.0
0.6	3.0	2.8	2.9	3.4	3.3	5.4	6.3	5.9	6.2
0.9	2.7	3.2	3.6	4.2	4.8	5.7	7.5	7.5	9.4
2.3[a]	3.6	6.4	6.7	9.3	10.7	24.7	26.7	31.3	38.0
3.7	4.3	3.8	3.6	3.3	4.0	4.1	6.1	4.9	5.7
0.5	0.6	0.5	0.4	1.5	1.3	1.0	1.8	1.9	2.2
1.1	1.6	1.5	1.8	1.5	1.1	0.7	0.8	0.7	0.6
1.3	1.5	1.6	1.7	2.5	2.9	3.2	3.9	4.9	5.0
0.5	1.8	1.5	1.7	2.3	2.7	3.3	5.4	6.1	5.9
0.4[a]	0.2	0.4	0.5	0.8	1.0	1.5	2.5	2.3	3.5
1.0	1.7	1.7	1.3	1.4	1.6	1.8	2.3	2.3	2.3
0.7	1.1	1.1	1.2	1.3	1.5	1.7	2.0	1.9	1.9

TABLE 22

Bilateral ODA from individual DAC member countries and multilateral assistance[a] to least developed countries, 1965-1977

(Net disbursements in millions of current dollars)

	Net disbursements in millions of dollars										
	Average 1965-1968[b,c]	*1969*[c]	*1970*[c]	*1971*	*1972*	*1973*	*1974*	*1975*	*1976*	*1977*	*Main recipients in 1977*[d]
A *Bilateral donors*											
Australia	1.7	2.6	2.9	4.5	13.0	7.8	38.1	29.8	14.3	17.5	Bangladesh, Samoa
Austria	0.6	0.2	1.1	1.2	0.1	0.6	0.4	0.9	1.4	2.4	Rwanda, Upper Volta, Mali, Lesotho
Belgium	12.4	18.4	21.6	23.4	28.7	34.1	39.4	52.3	54.1	58.3	Rwanda, Burundi
Canada	5.3	6.4	10.4	23.4	65.6	100.2	124.9	164.0	123.9	108.8	Bangladesh, Malawi
Denmark	1.6	5.4	7.0	7.2	12.8	23.1	38.0	48.4	47.1	58.1	United Republic of Tanzania, Bangladesh
Finland	–	–	–	1.2	3.7	4.6	7.0	12.6	15.8	11.3	United Republic of Tanzania, Bangladesh
France[e]	67.1	85.6	70.2	82.4	112.3	127.2	183.0	206.6	186.5	172.0	Chad, Upper Volta, Central African Empire, Mali, Niger
Germany, Federal Republic of	39.1	35.8	44.8	53.9	67.7	138.9	175.7	238.6	230.0	226.9	Bangladesh, United Republic of Tanzania
Italy	19.5	14.9	24.2	24.0	6.9	18.2	13.6	12.2	9.3	11.1	Somalia, Yemen Arab Republic
Japan	2.9	6.5	8.2	8.0	29.2	41.6	45.0	69.7	59.7	104.9	Bangladesh
Netherlands	1.0	0.1	3.6	7.3	13.2	15.0	44.0	61.9	79.7	150.8	United Republic of Tanzania, Bangladesh, Sudan
New Zealand	–	–	–	–	1.9	2.5	3.5	10.1	4.4	4.8	Samoa
Norway	1.0	1.7	2.6	6.9	12.6	11.1	31.3	37.0	37.4	58.8	United Republic of Tanzania, Bangladesh
Sweden	7.8	18.2	15.8	19.1	55.3	60.1	71.4	115.3	107.4	130.6	United Republic of Tanzania, Bangladesh, Ethiopia
Switzerland	1.5	2.4	2.3	5.7	10.4	7.4	8.1	13.4	11.5	19.7	Bangladesh, Upper Volta
United Kingdom	100.7	57.8	46.4	58.0	67.4	53.4	72.2	108.7	98.4	117.6	Bangladesh, Malawi
United States of America	162.2	132.0	138.0	163.0	225.0	311.0	286.0	558.0	260.0	254.0	Bangladesh, United Republic of Tanzania, Haiti
Total bilateral concessional	424.3	388.0	399.1	489.2	725.8	956.8	1 181.6	1 739.5	1 340.9	1 507.6	
B. *Multilateral donors*											
1. *Concessional*											
AfDF	–	–	–	–	–	–	–	3.9	10.5	19.5	Mali, Chad, Rwanda
AsDB	–	–	0.7	2.4	2.0	5.3	4.8	26.6	13.0	24.0	Bangladesh, Nepal, Afghanistan, Samoa
EEC/EDF	36.7	43.8	46.1	60.7	70.6	156.2	238.8	275.3	170.0	174.1	Niger, Somalia, Ethiopia
IBRD	–	–	–	–	–	–	–	–	0.1	6.1	United Republic of Tanzania, Malawi
IDA	12.5	28.7	36.6	43.4	43.5	120.2	155.6	266.4	346.1	350.9	Bangladesh, United Republic of Tanzania
IDB	–0.2	0.9	1.0	0.2	–0.3	0.0	0.8	14.6	15.6	21.3	Haiti
IMF trust fund	–	–	–	–	–	–	–	–	–	34.6	Bangladesh, United Republic of Tanzania
United Nations	29.7	50.8	69.7	82.1	115.8	126.7	161.0	309.3	289.3	283.2	Bangladesh

UNDP	..	27.4	35.5	41.2	46.3	51.7	55.5	88.1	89.1	..	
UNHCR	..	3.8	3.8	3.3	16.7	13.9	8.8	7.4	7.7	..	
UNICEF	..	4.4	4.4	5.3	12.8	10.9	19.9	25.7	23.2	..	
UNTA	..	6.4	6.8	7.6	9.5	10.9	11.8	14.0	15.3	..	
WFP	..	5.2	15.8	20.7	27.0	32.5	48.8	115.8	93.1	126.8	
Other United Nations	..	3.6	3.4	4.0	3.5	6.8	16.2	58.3	60.9	..	
Total	78.8	124.2	154.1	188.8	231.6	408.4	561.0	896.1	844.6	913.7	
2. *Non-concessional*											
AfDB	−5.8	0.2	0.1	2.0	4.0	6.7	5.6	12.6	13.4	16.9	Malawi, Uganda, Guinea
AsDB	−1.3	−0.5	−0.5	0.0	0.1	4.0	0.4	−1.2	−2.0	−0.1	
IBRD	5.3	15.8	23.8	41.3	52.8	26.2	3.7	90.0	0.7	14.8	United Republic of Tanzania, Botswana, Malawi
IFC	2.7	2.6	−0.0	−0.5	0.6	1.2	−1.0	−1.0	5.6	6.6	Malawi, Nepal, Sudan
Total	0.9	18.1	23.4	43.2	57.5	38.1	8.7	100.4	17.7	38.1	
Total multilateral (B1 + B2)	79.6	142.3	177.5	232.0	289.1	446.5	569.7	996.5	862.3	951.8	
Total concessional flows (A + B1)	503.1	512.2	553.2	678.0	957.4	1 365.2	1 742.6	2 635.6	2 185.5	2 421.3	
GRAND TOTAL (A + B)	504.0	530.3	576.6	721.2	1 014.9	1 403.3	1 751.3	2 736.0	2 203.2	2 459.4	

Source: UNCTAD secretariat calculations, based on information from the OECD/DAC secretariat.

[a] Multilateral institutions mainly financed by DAC countries.

[b] Flows from bilateral donors include total official flows.

[c] Excluding assistance flows to Bangladesh.

[d] Accounting each one for 10 per cent or more of the total provided to total least developed countries.

[e] Excluding approximately $40 million per year in 1970 and 1971, to Benin, Chad, Mali, Niger and Upper Volta.

TABLE 23

Concessional assistance to least developed countries from individual DAC member countries and multilateral agencies (financed mainly by them, 1972-1977
(Net disbursements in millions of constant dollars at purchasing power of 1977)[a]

	Net disbursements in millions of constant dollars of 1977					
	1972	*1973*	*1974*	*1975*	*1976*	*1977*
A. *Bilateral donors*						
Australia	25.9	12.4	44.6	33.0	15.5	17.5
Austria	0.2	1.0	0.5	1.0	1.5	2.4
Belgium	57.1	54.4	46.1	57.9	58.7	53.3
Canada	130.6	159.9	146.2	181.7	134.5	108.8
Denmark	25.5	36.9	44.5	53.6	51.1	58.1
Finland	7.4	7.3	8.2	14.0	17.2	11.3
France	223.5	203.0	214.2	228.9	202.5	172.0
Germany, Federal Republic of	134.7	221.6	205.6	264.3	249.7	226.9
Italy	13.7	29.0	15.9	13.5	10.1	11.1
Japan	58.1	66.4	52.7	77.2	64.8	104.9
Netherlands	26.3	23.9	51.5	68.6	86.6	150.8
New Zealand	3.8	4.0	4.1	11.2	4.8	4.8
Norway	25.1	17.7	36.6	41.0	40.6	58.8
Sweden	110.0	95.9	83.5	127.7	116.6	130.6
Switzerland	20.7	11.8	9.5	14.9	12.5	19.7
United Kingdom	134.1	85.2	84.5	120.4	106.8	117.6
United States of America	447.8	496.3	334.7	618.2	282.3	254.0
Total bilateral concessional	1 444.5	1 526.7	1 382.9	1 927.1	1 455.8	1 507.6
B. *Multilateral donors*						
AfDf	–	–	–	4.3	11.4	19.5
AsDB	4.0	8.5	5.6	29.5	14.1	24.0
EEC/EDF	140.5	249.2	279.5	305.0	184.6	174.1
IBRD	–	–	–	–	0.1	6.1
IDA	86.6	191.8	182.1	295.1	375.8	350.9
IDB	–0.6	0.0	0.9	16.2	16.9	21.3
IMF trust fund	–	–	–	–	–	34.6
United Nations	230.4	202.2	188.4	342.7	314.1	283.2
UNDP	92.1	82.5	65.0	97.6	96.7	..
UNHCR	33.2	22.2	10.3	8.2	8.4	..
UNICEF	25.5	17.4	23.3	28.5	25.2	..
UNTA	18.9	17.4	13.8	15.5	16.6	..
WFP	53.7	51.9	57.1	128.3	101.1	126.8
Other United Nations	7.0	10.8	18.9	64.6	66.1	..
Total multilateral concessional	460.9	651.7	656.5	992.8	917.0	913.7
Total concessional flows	1 905.4	2 178.4	2 039.4	2 919.9	2 372.8	2 421.3
Memo item: import price index for the least developed countries (1970 = 100)	115.69	144.30	196.74	207.83	212.07	230.25

Source: Table 22.

[a] Actual disbursements in 1972, 1973, 1974, 1975 and 1976 were inflated to 1977 prices using the UNCTAD, import price index for the least developed countries (see memo item).

TABLE 24

Concessional assistance to least developed countries from individual DAC member countries and multilateral agencies financed mainly by them: relative importance and relative shares as compared to all developing countries, average 1965-1968, 1972, 1975, 1976 and 1977

	Relative importance of individual DAC countries and multilateral agencies mainly financed by them in ODA flows to least developed countries					*Share of least developed countries in ODA flows from individual DAC member countries and multilateral agencies mainly financed by them to all developing countries*				
	Average 1965-1968[a]	*1972*	*1975*	*1976*	*1977*	*1965-1968*[b]	*1972*	*1975*	*1976*	*1977*
A. *Bilateral donors*										
Australia	0.33	1.36	1.13	0.65	0.72	2.28	5.13	6.83	4.50	5.02
Austria	0.09	0.01	0.03	0.06	0.10	5.43	2.86	1.84	5.02	3.04
Belgium	1.86	3.00	1.99	2.48	2.41	23.01	22.20	21.14	24.10	22.29
Canada	2.20	6.85	6.22	5.67	4.49	11.01	19.42	27.01	23.46	23.23
Denmark	0.25	1.34	1.84	2.16	2.40	18.91	27.77	43.72	40.64	39.99
Finland	–	0.39	0.48	0.72	0.47	–	48.68	46.67	55.63	42.01
France	9.92	11.73	7.84	8.53	7.10	10.32	10.15	11.51	10.09	8.97
Germany, Federal Republic of	7.85	7.07	9.05	10.52	9.37	13.08	12.03	22.31	23.74	24.60
Italy	3.05	0.72	0.46	0.43	0.46	27.34	14.71	19.58	13.82	20.26
Japan	2.20	3.05	2.65	2.73	4.33	5.38	6.14	8.25	8.06	11.72
Netherlands	0.31	1.38	2.35	3.65	6.23	0.97	6.89	17.08	16.23	23.66
New Zealand	–	0.20	0.38	0.20	0.20	–	11.73	20.12	10.11	11.51
Norway	0.15	1.31	1.40	1.71	2.43	21.71	41.86	36.31	36.28	37.45
Sweden	1.36	5.77	4.38	4.91	5.39	42.63	51.83	30.94	26.77	27.06
Switzerland	0.22	1.09	0.51	0.53	0.81	14.41	34.78	18.98	17.67	29.98
United Kingdom	16.29	7.04	4.12	4.50	4.86	20.65	14.57	19.53	17.17	21.70
United States of America	38.77	23.50	21.17	11.90	10.49	8.06	8.83	18.89	9.26	8.96
Total bilateral concessional	84.85	75.81	66.00	61.35	62.26	10.10	11.42	17.90	14.34	15.26
B. *Multilateral donors*										
AfDF	–	–	0.15	0.48	0.81	–	–	100.00	99.06	75.00
AsDB	–	0.21	1.01	0.60	0.99	–	18.52	35.00	21.14	29.63
EEC/EDF	5.43	7.37	10.45	7.78	7.19	33.15	31.07	40.95	39.60	35.56
IBRD	–	–	–	0.00	0.25	–	–	–	0.63	15.64
IDA	5.04	4.54	10.11	15.84	14.49	12.96	14.86	24.91	26.82	31.49
IDB	–0.03	–0.03	0.55	0.71	0.88	–0.66	–0.13	4.77	5.78	7.12
IMF trust fund	–	–	–	–	1.43	–	–	–	–	19.77
United Nations	4.70	12.10	11.73	13.24	11.70	13.15	19.74	21.78	24.09	20.92
UNDP	..	4.84	3.34	4.08	..	..	..	..	..	..
UNHCR	..	1.74	0.28	0.35	..	..	..	..	..	..
UNICEF	..	1.34	0.98	1.06	..	..	..	..	..	..
UNTA	..	0.99	0.53	0.70	..	..	..	..	..	..
WFP	..	2.82	4.39	4.26	5.24	..	..	..	..	..
Other United Nations	..	0.37	2.21	2.79	..	..	..	..	..	..
Total multilateral concessional	15.15	24.19	34.00	38.65	37.74	15.87	17.13	25.26	25.76	25.54
Total concessional flows	100.00	100.00	100.00	100.00	100.00	10.73	12.43	19.87	17.30	17.99

Source: UNCTAD secretariat calculations, based on information from the OECD/OAC secretariat.

[a] The percentage distribution is based on data including rough estimates for assistance to Bangladesh (then East Pakistan) and therefore differs somewhat from that derived from data in table 22.

Data for bilateral donors refer to total official bilateral flows, non-concessional official bilateral flows are generally estimated not to be significant for least developed countries.

[b] Data for bilateral donors refer to 1969.

TABLE 25. — **Net ODA from individual DAC member countries to**

Country	*Net official development assistance to*					
	Bilateral					
	1972	*1973*	*1974*	*1975*	*1976*	*1977*
Australia	0.029	0.012	0.049	0.035	0.015	0.019
Austria	0.000	0.002	0.001	0.002	0.003	0.005
Belgium	0.082	0.074	0.074	0.082	0.081	0.072
Canada	0.063	0.084	0.087	0.103	0.065	0.056
Denmark	0.061	0.084	0.125	0.138	0.122	0.135
Finland	0.028	0.027	0.032	0.048	0.057	0.039
France	0.057	0.050	0.067	0.061	0.054	0.045
Germany, Federal Republic of	0.026	0.040	0.046	0.057	0.052	0.044
Italy	0.006	0.013	0.009	0.007	0.005	0.006
Japan	0.010	0.010	0.010	0.014	0.011	0.015
Netherlands	0.029	0.025	0.064	0.077	0.090	0.143
New Zealand	0.023	0.023	0.028	0.080	0.034	0.036
Norway	0.085	0.056	0.137	0.133	0.121	0.164
Sweden	0.134	0.121	0.129	0.167	0.145	0.167
Switzerland	0.034	0.018	0.017	0.024	0.020	0.031
United Kingdom	0.043	0.030	0.037	0.047	0.044	0.048
United States of America	0.019	0.024	0.020	0.036	0.015	0.013
Total DAC countries	0.028	0.031	0.034	0.045	0.032	0.032

Source: UNCTAD secretariat calculations, based on information from the OECD/DAC secretariat.

Note: This table presents data for individual DAC member countries on the estimated amount of net ODA disbursements to the least developed countries, expressed as a percentage of the GNP of each donor. To provide a clear picture of the total flow, an attempt has been made to estimate the share of multilateral

least developed countries, as percentage of GNP, 1972-1977

least developed countries as a percentage of GNP

Multilateral						*Total (bilateral plus multilateral)*					
1972	*1973*	*1974*	*1975*	*1976*	*1977*	*1972*	*1973*	*1974*	*1975*	*1976*	*1977*
0.003	0.005	0.007	0.017	0.011	0.014	0.032	0.017	0.056	0.052	0.026	0.033
0.007	0.003	0.005	0.008	0.010	0.011	0.007	0.005	0.006	0.010	0.013	0.016
0.029	0.039	0.040	0.059	0.039	0.028	0.111	0.113	0.114	0.141	0.120	0.100
0.010	0.018	0.015	0.034	0.028	0.051	0.073	0.102	0.102	0.137	0.093	0.107
0.033	0.040	0.046	0.070	0.059	0.058	0.094	0.124	0.171	0.208	0.181	0.193
0.009	0.015	0.015	0.018	0.019	0.015	0.037	0.042	0.047	0.066	0.076	0.054
0.016	0.025	0.026	0.030	0.021	0.019	0.073	0.075	0.093	0.091	0.075	0.064
0.013	0.024	0.029	0.037	0.017	0.015	0.039	0.064	0.075	0.094	0.069	0.059
0.010	0.019	0.035	0.025	0.018	0.015	0.016	0.032	0.044	0.032	0.023	0.021
0.004	0.004	0.007	0.013	0.011	0.015	0.014	0.014	0.017	0.027	0.022	0.030
0.037	0.043	0.053	0.076	0.062	0.050	0.066	0.068	0.117	0.153	0.152	0.193
0.005	0.008	0.008	0.022	0.014	0.015	0.028	0.031	0.036	0.102	0.048	0.051
0.028	0.035	0.041	0.065	0.076	0.077	0.113	0.091	0.178	0.198	0.197	0.241
0.029	0.044	0.051	0.066	0.063	0.079	0.163	0.165	0.180	0.233	0.208	0.246
0.012	0.013	0.007	0.012	0.012	0.015	0.046	0.031	0.024	0.036	0.032	0.046
0.010	0.017	0.022	0.032	0.024	0.033	0.053	0.047	0.059	0.079	0.068	0.081
0.005	0.005	0.008	0.012	0.017	0.012	0.024	0.029	0.028	0.048	0.032	0.025
0.009	0.013	0.016	0.023	0.020	0.019	0.037	0.044	0.050	0.068	0.052	0.051

flows to least developed countries provided by each donor. To do so, the percentage share of contributions to each multilateral agency from each donor was used to allocate the total net disbursements from each multilateral agency to least developed countries in each particular year, and the resulting amounts by donor country were then shown as a percentage of its GNP.

TABLE 26. — **Total receipts of individual least developed countries from members**

(*Net disbursements*

	Concessional[b]					*Non-concessional*				
	1973	*1974*	*1975*	*1976*	*1977*	*1973*	*1974*	*1975*	*1976*	*1977*
Afghanistan		28.6	21.6	14.7	25.2					..
Bangladesh		34.8	61.1	10.9	178.9					..
Benin		4.5	2.4	3.7	4.2					..
Botswana			5.4							
Burundi		4.0	1.0	0.1	1.5			1.2		..
Cape Verde			0.1	11.8	2.9					
Central African Empire		1.2	1.4		1.7					
Chad	3.1	13.8	8.1	1.4	1.2	14.1	3.9	0.8	0.7	..
Comoros				14.1	3.4					
Democratic Yemen	1.7	35.4	34.3	141.8	67.7	1.3		15.0		..
Ethiopia		1.3	15.4		2.4		0.5	0.4		
Gambia		1.5	0.4	2.1	3.6			0.3		..
Guinea		21.0	5.9	0.2	5.1		16.2	0.1	1.2	..
Haiti					3.2					..
Laos					2.1					..
Lesotho			2.8		1.9					..
Malawi										..
Maldives			0.2	2.8	0.4					..
Mali	0.8	13.6	29.4	3.0	15.7					..
Nepal			0.3	0.1	8.6					..
Niger	0.5	1.0	16.8	4.1	5.8				2.2	..
Rwanda		1.0	9.5	0.1	5.4				0.8	..
Samoa				0.8	1.6					..
Somalia	5.5	49.6	80.4	37.5	187.4		35.5	15.0	6.8	..
Sudan	3.3	80.0	188.2	257.0	119.3	31.7	159.9	91.4	103.1	..
Uganda		18.8	25.7	5.0	8.0	7.4	1.1	11.3	1.4	..
United Republic of Tanzania		7.1	7.3		12.9					..
Upper Volta	0.1	6.1	2.9	1.0	2.9					..
Yemen	8.8	90.6	141.0	203.2	185.0					..
TOTAL	23.7	413.9	661.7	715.4	858.0	54.5	218.3	135.5	116.3	51.8
All developing countries	1 208.2	3 126.4	5 090.8	4 940.3	5 247.7	143.1	809.7	1 467.7	1 556.3	1 241.3

Source: UNCTAD secretariat calculations, based on OECD secretariat estimates and IMF, *International Financial Statistics* (various issues).

[a] The members of OPEC and the multilateral institutions included here are the following: Algeria, Iran, Iraq, Kuwait, Libyan Arab Jamahiriya, Nigeria, Qatar, Saudi Arabia, United Arab Emirates, Venezuela, Arab African Bank, Arab Fund for Economic and Social Development, Arab International Bank, Arab Investment Company, Arab Planning Institute, Arab Bank for Economic Development in Africa, Arab Fund for Technical Assistance to Arab and African Countries, Arab Oil Trust Fund with African Development Bank,

of OPEC and multilateral agencies financed mainly by them,[a] 1973-1977
in millions of dollars)

Total disbursements					*Memo item[c]: IMF Oil Facility*				
1973	*1974*	*1975*	*1976*	*1977*	*1973*	*1974*	*1975*	*1976*	*1977*
	28.6	21.6	14.7	..					
	34.8	61.1	10.9	..		48.6	44.8	17.0	–0.9
	5.8	2.4	3.7	..					
		5.4		..					
	4.0	2.2	0.1	..			1.5		
		0.1	11.8	..					
	1.2	1.4		..		3.2	2.8	1.2	
17.2	17.7	8.9	2.1	..		2.6			
			14.1	..					
3.0	35.4	49.3	141.8	..		11.2	8.6	8.5	
	1.8	15.8		..					
	1.5	0.7	2.1	..					
	37.2	6.0	1.4	..		4.2			
				..		4.6	3.2	3.0	–0.1
				..					
		2.8		..					
				..			2.9	1.5	
		0.2	2.8	..					
0.8	13.6	29.4	3.0	..		4.8	1.2	4.6	
		0.3	0.1	..					
0.5	1.0	16.8	6.3	..					
	1.0	9.5	0.9	..					
			0.8	..			0.4	0.1	
5.5	85.1	95.4	44.3	..					
35.0	239.9	279.6	360.1	..		34.5	22.2		–0.7
7.4	19.9	37.0	6.4	..		6.0	17.2		
	7.1	7.3		..		34.2	28.8		–1.9
0.1	6.1	2.9	1.0	..					
8.8	90.6	141.0	203.2	..					
78.2	632.2	797.2	831.7	909.8		154.0	133.6	35.9	–3.6
1 351.3	3 936.1	6 558.5	6 496.6	6 489.0		911.7	1 544.8	321.0	–207.6

Islamic Solidarity Fund, OAPEC Special Account, OPEC Special Fund, Special Arab Aid Fund for Africa, Venezuelan Trust Fund with the Caribbean Development Bank, Venezuelan Trust Fund with the Inter-American Development Bank, Gulf Organization for the Development of the Arab Republic of Egypt.

[b] The term "concessional" refers to loans containing a grant element of 25 per cent based on a discount rate of 10 per cent.

[c] The net contribution by members of OPEC to the IMF oil facility was 86.1 per cent in 1974, 77.3 per cent in 1975, 48.6 per cent in 1976 and 44.4 per cent in 1977.

TABLE 27

Bilateral concessional net disbursements to least developed countries from individual OPEC members and concessional and non-concessional net disbursements to least developed countries from multilateral agencies financed mainly by OPEC members, 1973-1977

(Millions of current dollars)

	1973	*1974*	*1975*	*1976*	*1977*[a]
A. *Bilateral donors*					
Algeria	1.00	2.24	2.63	4.00	–
Iran	–	10.00	3.10	5.70	13.00
Iraq	0.50	56.10	32.43	50.20	18.60
Kuwait	3.77	30.41	60.53	43.79	97.34
Libyan Arab Jamahiriya	6.54	59.10	39.57	8.70	0.10
Nigeria	–	4.97	2.07	3.51	1.40
Qatar	2.15	22.00	32.78	12.91	5.00
Saudi Arabia	5.70	89.23	269.03	424.13	570.13
United Arab Emirates	4.08	47.80	141.38	84.80	45.31
Total bilateral concessional	23.74	321.85	583.52	637.74	750.88
B. *Multilateral donors*					
1. *Concessional*					
Arab Bank for Economic Development in Africa	–	–	–	0.10	4.77
Arab Fund for Economic and Social Development	–	1.18	15.84	18.51	23.14
Special Arab Aid Fund for Africa	–	24.60	62.30	21.00	–
OPEC Special Fund	–	–	–	4.53	76.43
OAPEC Special Account	–	66.30	–	33.50	–
Arab Fund for Technical Assistance to Arab and African Countries	–	–	–	–	2.73
Total	–	92.08	78.14	77.64	107.07
2. *Non-concessional*					
Arab African Bank	–	7.54	14.12	27.91	–
Arab International Bank	–	–	2.00	–	–
Islamic Development Bank	–	–	–	–	4.99
Total	–	7.54	16.12	27.91	4.99
Total multilateral (B1 + B2)	–	99.62	94.26	105.55	112.06
Total concessional (A + B1)	23.74	413.93	661.66	715.38	857.95
GRAND TOTAL (A + B)	23.74	421.47	677.78	743.29	862.94

Source: UNCTAD secretariat calculations, based on information from the OECD/DAC secretariat.

[a] Estimates.

TABLE 28

Concessional assistance to least developed countries from individual OPEC members and multilateral agencies financed mainly by them, 1973-1977

(Net disbursements in millions of constant dollars at purchasing power of 1977)[a]

	1973	*1974*	*1975*	*1976*	*1977*
A. *Bilateral donors*					
Algeria	1.60	2.62	2.91	4.34	–
Iran	–	11.70	3.44	6.19	13.00
Iraq	0.80	65.65	35.93	54.50	18.60
Kuwait	6.02	35.59	67.06	47.54	97.34
Libyan Arab Jamahiriya	10.43	69.17	43.84	9.45	0.10
Nigeria	–	5.82	2.29	3.81	1.40
Qatar	3.43	25.75	36.32	14.02	5.00
Saudi Arabia	9.09	104.43	298.05	460.49	570.13
United Arab Emirates	6.51	55.94	156.63	92.07	45.31
Total bilateral concessional	37.88	376.67	646.47	692.41	750.88
B. *Multilateral donors*					
Arab Bank for Economic Development in Africa	–	–	–	0.11	4.77
Arab Fund for Economic and Social Development	–	1.38	17.55	20.10	23.14
Special Arab Aid Fund for Africa	–	28.79	69.02	22.80	–
OPEC Special Fund	–	–	–	4.92	76.43
OAPEC Special Account	–	77.59	–	36.37	–
Arab Fund for Technical Assistance to Arab and African Countries	–	–	–	–	2.73
Total multilateral concessional	–	107.76	86.57	84.30	107.07
Total concessional flows	37.88	484.43	733.04	776.71	857.95

Source: Table 27.

[a] Actual disbursements in 1973, 1974, 1975 and 1976 were inflated to 1977 prices using the UNCTAD import price index for the least developed countries (see memo item in table 23).

TABLE 29. – **Loans from socialist countries of Eastern Europe and China**

Country	*Net disbursements*									
	Socialist countries of Eastern Europe									
	1968	*1969*	*1970*	*1971*	*1972*	*1973*	*1974*	*1975*	*1976*	*1977*
A. *Concessional*										
Afghanistan	20.2	24.4	18.9	20.4	21.4	20.9	15.7	52.6	46.8	(43.3)
Bangladesh	–	–	–	–	–	57.7	7.4	24.4	–1.4	–5.9
Benin	–	–	–	–	–	–	1.8	–	–0.1	(–0.6)
Burundi	–	–	–	–	–	–	–	–	–	–
Central African Empire	–	–	–	–	1.4	0.2	0.5	1.5	0.9	(–0.3)
Chad	–	0.4	0.6	0.4	0.9	0.1	–	–	–	(–0.4)
Comoros	–	–	–	–	–	–	–	–	–	(–)
Democratic Yemen	–	–	–	–	–	0.5	3.9	2.6	0.4	(–0.2)
Ethiopia	0.6	–0.3	0.8	0.5	0.0	–1.1	–1.7	–2.1	–2.0	–2.2
Guinea	14.3	7.3	38.2	30.7	27.4	25.1	29.3	53.6	–12.4	(–35.7)
Mali	–	5.2	1.9	1.2	1.8	3.6	1.3	8.5	5.0	(–6.2)
Nepal	–	–0.6	–0.5	–	–	–	–	–	–	–
Rwanda	–	–	–	–	–	–	–	–	–	–
Somalia	1.8	2.3	0.9	1.3	3.2	7.7	4.9	11.4	23.0	(42.7)
Sudan	6.7	1.1	13.3	9.7	4.6	–2.1	–4.7	–7.2	–6.6	(–6.7)
Uganda	0.4	0.7	0.5	2.1	5.7	0.5	7.1	9.3	18.9	(–5.7)
United Republic of Tanzania	0.0	0.2	1.2	0.3	–0.5	0.3	0.2	1.2	1.1	2.0
Upper Volta	–	–	–	–	–	–	–	–	–	(–)
Yemen	–	–	–	1.5	8.8	6.6	11.7	5.1	46.4	(47.9)
Total above	44.0	40.7	75.8	68.1	74.7	120.0	77.4	160.9	120.0	(72.0)
All developing countries	329.3	301.7	303.4	223.5	147.3	231.1	139.6	237.6	261.7	(496.0)
B. *Non concessional*										
Bangladesh	–	–	–	–	–	14.9	11.3	5.2	1.9	–0.1
All developing countries	–12.0	–17.7	–13.1	–3.7	–1.7	15.8	31.4	49.4	54.7	22.7

Source: UNCTAD secretariat calculations, based on information supplied by the World Bank.

to least developed countries, 1968-1977

(millions of dollars)

China									
1968	*1969*	*1970*	*1971*	*1972*	*1973*	*1974*	*1975*	*1976*	*1977*
1.8	5.2	2.6	5.1	1.0	2.2	0.3	0.6	0.2	(6.9)
–	–	–	–	–	–	–	–	–	1.3
–	–	–	–	–	–	–	–	2.2	(5.6)
–	–	–	–	–	0.6	0.8	1.1	1.3	7.6
–	–	–	–	–	–	–	–	–	(–)
–	–	–	–	–	–	0.3	0.4	0.2	(0.6)
–	–	–	–	–	–	–	–	1.2	(2.1)
–	–	0.7	0.4	6.5	11.6	2.6	12.9	47.1	(1.5)
–	–	–	–	–	–	–	0.3	4.0	4.1
1.5	1.9	9.2	10.0	11.0	15.1	9.4	4.1	13.2	(–7.2)
–	7.4	14.1	2.1	2.7	1.9	10.9	9.3	8.3	(2.2)
–	–	–	–	–	–	–	–	–	–
–	–	–	–	–	–	–	–	7.7	6.2
–	0.1	0.1	0.1	0.1	12.0	17.7	20.4	3.6	(19.6)
–	–	–	–	0.4	2.8	4.2	6.4	–0.5	(–0.5)
–	–	–	–	–	–	–	–	–	(–)
1.0	2.9	9.7	5.1	42.7	52.6	59.3	73.5	4.5	14.6
–	–	–	–	–	–	–	0.5	2.7	(11.5)
–	–	–	–	–	0.5	10.8	1.9	2.7	(–4.3)
4.3	17.6	36.4	22.8	64.3	99.4	116.2	131.3	98.4	(71.8)
13.6	32.6	77.5	100.7	126.3	228.0	233.0	211.0	225.4	(207.3)
–	–	–	–	–	–	–	–	–	–
–1.0	–1.9	–	–1.3	–1.3	–1.3	–1.2	–1.1	–	–

TABLE 30

Grant element of loan commitments and grant disbursements for individual least developed countries, 1967-1970, 1971-1973 and 1974-1976

Country	*Grant element of loans and grants (percentage)*		
	1967-1970	*1971-1973*	*1974-1976*
Afghanistan	73.19	72.54	65.02
Bangladesh	–	75.40	76.99
Benin	87.17	78.01	77.74
Bhutan	–	–	–
Botswana	91.21	68.00	78.64
Burundi	95.74	93.19	89.62
Cape Verde	–	–	–
Central African Empire	86.15	69.64	98.14
Chad	87.66	85.49	77.63
Comoros	–	97.72	89.43
Democratic Yemen	–	64.97	77.18
Ethiopia	65.97	73.22	87.79
Gambia	79.07	90.93	85.45
Guinea	–	34.23	36.16
Haiti	–	51.08	81.47
Lao People's Democratic Republic	–	–	–
Lesotho	96.80	97.58	96.11
Malawi	76.90	74.11	79.50
Maldives	–	–	–
Mali	83.93	86.13	86.68
Nepal	–	87.51	86.99
Niger	77.24	92.47	97.03
Rwanda	97.27	94.89	95.87
Samoa	–	–	–
Somalia	83.51	81.84	77.43
Sudan	44.17	53.76	46.94
Uganda	79.31	70.91	73.52
United Republic of Tanzania	73.97	82.54	79.37
Upper Volta	85.66	85.61	88.99
Yemen	–	75.94	88.61
TOTAL	76.36	71.31	75.80

Source: UNCTAD secretariat calculations, based on information from the World Bank and the OECD/DAC secretariat.

TABLE 31

Grant element of ODA commitments[a] from individual DAC member countries to least developed countries and to all developing countries, 1972-1977

(Percentage)

A = *Least developed countries, excluding Cape Verde and Comoros. For the years 1972 to 1975, excluding also* Bangladesh, Central African Empire, Gambia and Democratic Yemen. The DAC target norm for least developed countries is 90 per cent. According to paragraph 10 (*a*) of resolution 98 (IV) of the United Nations Conference on Trade and Development, bilateral official development assistance of developed countries to the least developed countries should essentially be provided in the form of grants.

B = All developing countries, including Cyprus, Gibraltar, Greece, Malta, Portugal, Spain, Turkey and Yugoslavia. The DAC target norm for all developing countries is 84 per cent.

Country	*1972*		*1973*		*1974*		*1975*		*1976*		*1977*	
	A	*B*	*A*	*B*	*A*	*B*	*A*	*B*	*A*	*B*	*A*	*B*
Australia	100.0	100.0	100.0	99.4	100.0	99.4	100.0	100.0	100.0	100.0	100.0	100.0
Austria	100.0	81.1	39.5	57.4	0.0	48.6	100.0	94.8	100.0	97.3	35.5	67.5
Belgium	..	96.4	100.0	95.6	100.0	97.4	100.0	98.1	99.0	98.2	98.7	98.3
Canada	92.9	96.8	92.2	94.1	93.5	97.2	94.7	(96.4)	98.3	97.3	99.2	97.5
Denmark	92.3	94.1	90.3	96.1	91.4	94.6	88.6	96.0	91.5	96.6	94.9	(97.3)
Finland	..	96.6	100.0	85.6	84.6	89.4	87.8	91.5	84.8	90.8	100.0	97.5
France	93.0	85.8	95.4	91.2	97.4	89.2	97.0	(90.9)	87.9	90.9	94.6	(93.4)
Germany, Federal Republic of	92.8	80.9	93.5	83.1	92.2	84.2	93.0	88.3	91.1	(86.8)	93.8	86.0
Italy[b]	50.3	58.8	81.4	69.3	100.0	97.8	100.0	98.4	100.0	(97.3)	100.0	(99.2)
Japan	100.0	61.1	69.3	68.6	77.8	61.8	86.0	(69.5)	72.7	75.8	72.5	70.2
Netherlands	62.1	85.2	95.3	88.4	93.5	87.4	95.0	93.8	93.1	86.5	97.2	90.8
New Zealand	..	95.0	100.0	98.5	100.0	98.2	100.0	99.1	100.0	97.4	100.0	100.0
Norway	100.0	99.6	100.0	99.8	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Sweden	95.8	95.2	100.0	98.6	100.0	99.3	100.0	99.2	100.0	99.9	100.0	99.8
Switzerland	100.0	95.5	100.0	93.0	100.0	96.9	90.0	93.0	98.2	92.1	100.0	97.7
United Kingdom	86.1	85.7	87.7	87.1	86.3	(86.0)	99.0	(96.9)	99.7	97.5	93.6	96.7
United States of America	87.5	87.2	88.1	89.9	89.7	90.5	92.0	85.7	82.7	86.4	90.0	88.9
Total DAC countries	(88.8)	84.8	91.2	87.5	93.1	86.6	95.4	89.4	92.1	89.3	94.2	(89.4)

Source OECD, *Development Cooperation* (various issues).

[a] ODA commitments include debt reorganization in 1972 and 1973 and exclude it in other years.

[b] Italy has not subscribed since 1972 to the DAC recommendations on terms and conditions of aid.

TABLE 32. – **External public debt outstanding and debt service payments**

Country	*Debt outstanding (disbursed)*[a]										
	Millions of dollars						*Ratio to exports*				
	1969	*1974*	*1975*	*1976*	*1977*	*1978*	*1969*	*1974*	*1975*	*1976*	*1977*
Afghanistan	471.8	711.9	769.3	802.3	911.2	(983.7)	6.0	3.1	3.4	3.2	2.8
Bangladesh	..	354.5	1 016.7	1 615.3	1 945.5	2 292.0	..	0.9	3.4	3.7	4.3
Benin	41.2	57.6	79.2	85.3	113.4	(125.8)	1.5	1.7	1.7	1.6	2.0
Botswana	10.1	114.9	134.1	147.3	165.2	180.9	0.6	0.9	0.9	0.8	0.8
Burundi	6.0	7.8	9.4	21.6	23.7	37.1	0.5	0.3	0.3	0.4	0.3
Central African Empire	19.8	53.5	57.4	64.5	79.0	(80.9)	0.6	1.1	1.2	1.1	1.0
Chad	30.1	38.4	53.5	67.1	95.4	(108.9)	0.9	1.0	1.1	1.1	1.4
Comoros	..	..	..	3.8	17.4	(23.5)	..	..	..	0.4	1.9
Democratic Yemen	..	55.3	84.9	107.3	226.1	(304.6)	..	0.2	0.5	0.6	1.1
Ethiopia	135.4	299.5	324.0	381.2	429.5	470.5	1.1	1.1	1.4	1.4	1.3
Gambia	4.5	8.9	11.9	12.7	13.7	23.3	0.4	0.2	0.2	0.4	0.3
Guinea	214.0	627.7	746.8	790.5	871.5	(702.9)	3.8	5.9	5.2	3.6	3.4
Haiti	37.3	41.0	45.8	56.7	76.7	126.1	1.0	0.6	0.6	0.5	0.5
Lesotho	6.4	7.7	9.5	13.5	15.4	(18.7)	0.9	0.6	0.7	0.5	0.6
Malawi	68.5	201.2	227.1	243.4	257.9	291.9	1.3	1.7	1.6	1.6	1.3
Mali	200.0	283.3	331.7	351.8	375.7	(348.4)	11.8	4.4	6.3	4.1	3.0
Nepal	4.7	19.5	27.1	33.7	44.3	70.9	0.1	0.3	0.3	0.3	0.4
Niger	18.3	70.6	95.3	109.8	123.4	(130.4)	0.8	1.3	1.0	0.8	0.7
Rwanda	1.8	7.9	12.4	24.2	48.4	77.6	0.1	0.2	0.3	0.3	0.5
Somalia	53.1	138.3	182.8	219.9	277.2	(374.7)	1.7	2.2	2.1	2.6	2.8
Sudan	233.2	376.9	723.1	941.7	1 292.1	(1 464.6)	0.9	0.9	1.7	1.7	2.0
Uganda	101.3	167.3	184.1	187.5	211.5	(197.7)	0.4	0.5	0.7	0.5	0.4
United Republic of Tanzania	153.3	463.7	619.7	797.6	910.4	1 005.0	0.6	1.2	1.7	1.6	1.8
Upper Volta	18.7	39.7	47.0	63.3	84.4	(122.7)	0.9	0.9	1.1	1.2	1.5
Yemen	..	182.3	235.7	250.0	274.4	(263.3)	..	14.0	21.4	31.3	24.9
TOTAL ABOVE	1 829.5[c]	4 320.4	6 028.5	7 392.0	8 883.4	(9 826.1)	1.3[c]	1.3	1.9	1.8	1.8
All developing countries	35 600.6	81 304.0	98 107.4	118 186.2	146 021.8[d]	(161 253.3)	0.7	0.4	0.5	0.5	0.5

Source: UNCTAD secretariat calculations, based on information supplied by the World Bank.

[a] Beginning of period.

[b] Goods only.

[c] Excluding Bangladesh, Comoros, Democratic Yemen and Yemen.

[d] According to estimates for individual countries published by OECD in *Development Cooperation: 1978 Review* (table E.1), the total (disbursed) debt of the least developed countries at the beginning of 1977 was $9.3 billion as compared to $188.8 billion for all developing countries, while total debt service payments in 1976 amounted to $548 million for the least developed countries and

of least developed countries, 1969 and 1974-1978

Service payments									
Millions of dollars					*Percentage of exports*[b]				
1969	*1974*	*1975*	*1976*	*1977*	*1969*	*1974*	*1975*	*1976*	*1977*
20.9	37.1	23.2	26.9	(36.2)	26.5	16.1	10.4	10.8	11.1
..	25.2	70.0	64.9	66.0	..	6.6	23.1	15.0	14.6
1.5	6.1	6.0	4.0	(9.4)	5.4	17.9	13.0	7.3	16.5
0.6	3.3	6.9	4.3	5.8	3.3	2.7	4.9	2.4	2.9
0.6	0.9	2.0	2.8	2.7	5.0	3.0	6.3	5.1	2.9
2.1	6.3	8.5	7.7	(10.5)	5.8	13.1	17.7	13.3	12.8
3.0	3.6	6.2	5.3	(12.8)	9.4	9.7	12.9	8.4	18.3
..	..	..	0.5	(0.6)	..	..	..	5.6	6.7
..	0.2	0.2	0.1	(8.4)	..	0.1	0.1	0.0	4.2
19.4	21.2	25.9	26.1	28.2	16.3	7.5	10.8	9.4	8.5
0.0	0.4	0.4	0.4	0.4	0.0	0.9	0.8	1.1	0.8
12.5	22.7	24.8	54.4	(147.8)	21.9	21.4	17.3	25.1	57.3
1.2	6.1	7.6	10.2	12.4	3.2	8.5	9.6	9.8	8.7
0.3	0.3	0.4	0.4	(0.5)	4.3	2.1	3.1	1.6	1.8
4.0	14.3	16.6	14.2	12.6	7.5	12.0	11.9	9.6	6.5
4.8	2.3	2.9	3.7	(27.9)	28.2	3.6	5.5	4.4	22.5
1.4	0.8	1.7	1.7	2.2	2.6	1.2	1.7	1.7	1.9
2.2	3.2	9.2	6.2	(6.0)	9.2	6.0	10.1	4.6	3.6
0.5	0.5	0.8	0.8	1.4	3.6	1.4	1.9	1.0	1.5
0.7	3.5	3.9	3.0	(10.8)	2.2	5.6	4.4	3.5	10.8
22.6	58.5	93.0	119.8	(184.0)	9.1	13.3	21.3	21.6	27.8
18.9	11.8	7.0	5.4	(24.1)	8.1	3.7	2.7	1.5	4.3
15.6	23.4	26.4	27.7	33.2	6.2	5.8	7.1	5.7	6.6
1.7	3.6	5.2	4.7	(5.8)	8.1	10.0	11.8	8.9	10.5
..	9.6	3.8	5.2	(19.4)	..	73.8	34.5	65.0	176.4
134.5[c]	264.9	352.6	400.4	(669.1)	9.7[c]	8.1	11.0	9.9	13.6
4 379.4	12 852.3	14 054.9	16 632.8[d]	(22 684.2)	8.8	5.7	6.6	6.5	7.8

$27.6 billion for all developing countries. These amounts are higher than those based on World Bank data, mainly in view of the fact that OECD estimates have a wider country coverage and also include non-guaranteed private debt. The latter is estimated not to be significant, however, in the great majority of least developed countries. OECD estimates for least developed countries not shown in this table indicate that disbursed debt at the beginning of 1977 and debt service in 1976 were nil or not significant in the case of Bhutan and Cape Verde; they amounted to $35 million and $2 million respectively for Laos, $20 million and $1 million respectively for Samoa, and $1 million with no significant debt service payments in the case of the Maldives.

AGENDA ITEM 16*

DOCUMENT TD/241

Specific action related to the particular needs and problems of land-locked developing countries

Report by the UNCTAD secretariat

[*Original: English*]
[*20 February 1979*]

CONTENTS

I. *Introduction*

1. Resolution 98 (IV) of the United Nations Conference on Trade and Development makes a distinction between "specific action" related to the particular needs and problems of geographically disadvantaged countries (such as land-locked and island developing countries), on the one hand, and "special measures" in favour of the least developed countries, on the other. That resolution identified specific action needed to overcome the problems of the land-locked countries in their transit transport and access to the sea. Studies by the UNCTAD secretariat have drawn attention to the unique difficulties involved. The solutions put forward have called for co-operation between land-locked and transit countries and have stressed the important role which financial and technical assistance institutions can play.[1]

2. Land-locked developing countries are generally among the very poorest of the developing countries, and of the 19 land-locked developing countries 15 are also classified by the United Nations as least developed.[2] Their economic performance on average has been very weak during the 1970s. The *per capita* growth rate of real product of these countries as a group averaged only 1.1 per cent per annum between 1970 and 1977, as compared to an average for all developing countries of 3.1 per cent. Thirteen land-locked developing countries recorded *per capita* growth rates below the latter average, and indeed six of them recorded negative rates. (See annex I below.)

3. The lack of territorial access to the sea of the land-locked developing countries, aggravated by great distances to seaports (see annex II), by remoteness and isolation from world markets, and by the greater difficulties and costs of their international transport services, acts as a major impediment to their foreign trade and appears to be one of the major causes of their relative poverty and a serious constraint on their further economic and social development. Their difficulties often include inadequacy of physical facilities along the transit routes and in the seaports, delays and uncertainties in transit-transport operations, and complications related to the commercial and legal aspects of transiting a foreign territory, resulting in very high real costs of access to world markets. Action by the land-locked countries themselves, together with their transit neighbours, and with the full support of the international community, should therefore aim:

* For the agenda, see vol. I, part three, para. 6.

[1] A report entitled "Review of progress in the implementation of special measures and specific action related to the particular needs of the land-locked developing countries: report of the Secretary-General" (E/1978/87) was prepared by the UNCTAD secretariat, pursuant to para. 6 of Economic and Social Council resolution 2127 (LXIII), for submission through the Council to the General Assembly at its thirty-third session.

[2] See General Assembly resolutions 2768 (XXVI) of 18 November 1971 and 3487 (XXX) of 12 December 1975.

(*a*) To cut their real costs of access to and from the sea and to world markets;

(*b*) To improve the quality, efficiency and reliability of transit-transport services, and to minimize legal and procedural impediments;

(*c*) To restructure the economies of the land-locked countries so that they can adjust to their geographical handicaps;

(*d*) To offset the costs of improvements through especially favourable terms and conditions of international assistance.

II. *Integrated planning approach*

4. The problems of land-locked developing countries have been the subject of investigation by two UNCTAD expert groups, one in 1969-1970[3] and the other in 1973.[4] The report of the second group of experts has paved the way for the present policy emphasis on an "integrated planning approach" to the transit-transport problems of the land-locked developing countries.

5. The key elements of this integrated planning approach include:

(*a*) The need for close co-operation between land-locked developing countries and their transit neighbours concerning all aspects of transit transport;

(*b*) Clear recognition that major efforts to reduce the cost to land-locked developing countries of access to the sea and to world markets will necessitate improved practices and new investments not only in the land-locked developing countries but also in their neighbouring transit countries;

(*c*) The role of assistance by the international community. If needed improvements are to take place in the transit countries (which are often as poor as their land-locked neighbours, and with their own development priorities), financial arrangements must be provided by the international community which take fully into account the fact that substantial costs of improvement may need to be met in the transit country while benefits largely accrue to the land-locked country. Such assistance should therefore normally be on especially concessional terms;

(*d*) The need to take into account all aspects of the problem of transit transport, including: procedures and regulations; documentation; pricing policies; management; training; legal, organizational and institutional arrangements; maintenance of existing facilities and infrastructure; new facility and infrastructure requirements; possibilities for joint ventures; the effects of delays and uncertainties on the cost and quality of transit services. Improvements in each of these areas can lead to lower transit costs, and several complementary improvements will normally be needed to achieve maximum reduction in these costs;

(*e*) The importance of providing each land-locked country with alternative routes wherever feasible, in order to insure against any difficulties that may arise on other transit routes;

(*f*) The need for providing planners from the land-locked and transit countries with basic information in the form of detailed planning and costing studies on all the available options. Such studies should aim to bring into a consistent framework all the relevant information on each particular transit corridor, including the present chain of costs arising between the sea and the inland centre of the land-locked country, and then to estimate how the costs might change in the light of all relevant proposals for improvements. These costing studies should provide decision-makers with a clear blueprint of what changes are likely to have the highest pay-offs. They should provide a clear guide to the priorities for more detailed follow-up on specific improvement projects, and they should form a concrete basis for attracting needed assistance from the international community.

6. The UNCTAD secretariat has now begun to carry out detailed costing studies along the lines indicated in (*f*) above, with strong support from UNDP.[5] This is being done through a series of regional and subregional projects which are expected to cover each specific transit corridor serving the land-locked developing countries.

7. In order to help implement this integrated planning approach, further efforts should be made to strengthen the UNCTAD interregional advisory services on transit-transport problems. One part of these services, an adviser in the field of trade facilitation for land-locked countries, is being financed by UNDP; this adviser is examining a serious bottleneck that inhibits the trade of land-locked developing countries, namely, the lack of simple and standard trade documentation and procedures. The Swedish International Development Authority (SIDA) agreed to finance in 1979 a senior transit-transport expert, to provide substantive and technical support for ongoing UNCTAD assistance projects on behalf of land-locked developing countries and, in particular, to guide detailed planning and costing studies covering each transit-transport corridor. The Conference may wish to recommend suitable ways of financing these advisory services, keeping in mind the need for continuity.

III. *Regional and subregional transport planning*

8. The needs of the land-locked developing countries should be given high priority in regional and subregional transport development programmes, and especially favourable financial arrangements should be made to ensure that transit countries are able to provide adequate connexions to land-locked countries. Over the past 10 years, major steps have indeed been taken towards planning, building and operating transport facilities that are in conformity with

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[3] See the report of the Group of Experts on the special problems involved in the trade and economic development of the land-locked developing countries (*Official Records of the Trade and Development Board, Tenth Session (first, second and third parts), Annexes*, agenda item 13, document TD/B/308).

[4] See *A transport strategy for land-locked developing countries: report of the Expert Group on the Transport Infrastructure for Land-locked Developing Countries* (United Nations publication, Sales No. E.74.II.D.5). The initiatives recommended in this report were endorsed by the Trade and Development Board in its resolution 109 (XIV).

[5] See "Review of progress in the implementation of special measures and specific action related to the particular needs of the land-locked developing countries: report of the Secretary-General" (E/1978/87 (part II)), paras. 18-24.

regional and subregional needs and have compatible technical standards. The regional commissions have played a major role in this regard. These efforts have already resulted in major regional highway proposals (such as the pan-American, trans-Asian and trans-African highways) which will benefit all of the inland developing States by opening up new markets, improving transport services, and reducing transit costs. However, these efforts constitute only a beginning.

9. The development of air transport infrastructure constitutes an important area where regional or subregional arrangements can lead to substantial benefits for the land-locked developing countries. Progress in this area has so far been minimal. Land-locked developing countries should, therefore, explore the possibilities for establishing regional or subregional air transport organizations, in co-operation with other developing countries, which might provide more economical, balanced and effective air freight and passenger services.

10. Most of the land-locked countries and their transit neighbours in Africa, Asia and Latin America have not, for a variety of reasons, adhered to existing technical conventions concerned with transit. Of the 19 land-locked developing countries, only six are members of the Customs Co-operation Council. Only one of these countries has adhered to the Customs Convention on the International Transport of Goods under cover of TIR Carnets, the Customs Convention on Containers and the European Convention on Customs Treatment of Pallets used in International Transport. Two of these countries have adhered to the Customs Convention on the Temporary Importation of Packings, and two have signed the Customs Convention on the International Transit of Goods (ITI Convention).

11. Of the 26 countries providing transit services for the land-locked developing countries, only six have participated in any of these technical conventions. However, it is significant that 12 of them are members of the Customs Co-operation Council. In view of the potential importance of these and similar conventions in facilitating regional transit traffic, every effort should be made to obtain these benefits.

IV. *Specific priority areas for action and assistance*

12. Conference resolutions 63 (III) and 98 (IV) have identified a number of priority measures for action and assistance aimed at alleviating the geographical handicaps of the land-locked developing countries, which continue to merit implementation. These include:

(*a*) Provision of all-weather through-road transport routes for heavy vehicles carrying goods in transit to and from the main economic centres of the land-locked countries and seaports, including adequate provision for vehicles and maintenance;

(*b*) Extension (or connexion) of the rail system of transit countries into land-locked countries and the provision of adequate rolling-stock for through trips without a break;

(*c*) Development or improvement of the navigability of inland waterways so that continuous year-round use is possible;

(*d*) Ensuring that each land-locked developing country has at least one airport fully equipped in accordance with international standards, and providing for the purchase of aircraft and other equipment related to air transport on favourable terms;

(*e*) Provision for the early introduction of new, more efficient or more economical forms of transport, such as pipelines (for oil, natural gas and other suitable products) and containerization systems (to facilitate multimodal transport);

(*f*) Provision of fast and reliable communication links between the commercial centres of the land-locked countries and transit ports;

(*g*) Development and improvement of transit and port facilities especially for the use of a particular land-locked country, including the establishment of transit storage and related facilities at necessary breakpoints, and transit areas in transit ports;

(*h*) Support for efforts to restructure the economies of land-locked developing countries in order to help offset the geographical handicaps they face, including the establishment of import-substitution industries and of export industries producing low-bulk, high-value products.

V. *Co-operative arrangements*

13. Land-locked developing countries will require close co-operation from their transit neighbours to improve transit facilities and procedures required for their trade. The Governments of land-locked countries and their transit neighbours will find it useful to pursue joint efforts with respect to:

(*a*) The establishment of procedures for bilateral joint consultative machinery to ensure that the needs and problems of both land-locked and transit countries are kept under review;

(*b*) The promotion of bilateral joint ventures in the field of transport between the land-locked developing countries and transit countries;

(*c*) The simplification of customs and other procedures and formalities and the limitation of documentation requirements;

(*d*) The appointment of representatives to assist in the clearance of goods of the land-locked countries in transit;

(*e*) Facilitating the movement of road vehicles or railway rolling-stock across the frontiers of the land-locked and transit country.

VI. *United Nations Special Fund for Land-locked Developing Countries*

14. An initiative with respect to land-locked countries which began at the third session of the Conference in Santiago, Chile, in 1972 with a request for the study of a

special fund for land-locked developing countries[6] came to fruition with the creation of this fund in 1976.[7] As a result of the pledging conferences in November 1977 and November 1978, some $700,000 have been made available to the Fund. It is to be hoped that the resources of the Fund can grow substantially to help meet the large requirements for reducing the real costs of transit for land-locked developing countries.

15. The General Assembly, in its resolution 31/113 of 15 December 1977 on the United Nations Special Fund for Land-locked Developing Countries, urged Member States and the entire international community to make generous voluntary contributions to the Fund in order to make it operational as soon as possible. The Assembly authorized the Administrator of the United Nations Development Programme to propose, in close collaboration with the Secretary-General of UNCTAD, interim arrangements to implement the aims and purposes laid down in the statute of the Fund until the Fund became operational, in the manner specified in General Assembly resolution 31/177, subject to approval of such arrangements by the Governing Council of UNDP.

16. The Governing Council of UNDP, in its decision 25/15 of 28 June 1978,[8] authorized the Administrator to proceed, in consultation with the Secretary-General of UNCTAD, with the appraisal and approval of requests for assistance falling within the scope of operations of the Fund as outlined in the report of the Administrator[9] and in accordance with the procedures set out in the report.

17. The uses to which the resources of the Special Fund are put should be in addition to, and to a certain extent different from, the types of activity which the UNDP itself has supported in the past for land-locked countries, and which it should continue to support. For example, during its interim phase, the Fund could particularly be used for (*a*) small capital projects, which should have immediate impact on the improvement of transit facilities for land-locked countries; and (*b*) feasibility or pre-feasibility studies, costing a small amount but paving the way for implementation of larger capital projects.

VII. *Action by the Conference*

18. The Conference should reaffirm its support for specific action related to the particular needs and problems of the land-locked developing countries.

19. The fifth session of the Conference also provides an opportunity for land-locked developing countries and their transit neighbours to renew their commitments to co-operate fully with each other in identifying transit-transport problems and seeking effective co-operative solutions to them.

20. The international community should be requested to give financial and technical assistance support for the actions identified, on the particularly favourable terms and conditions warranted by the special difficulties confronting land-locked developing countries.

[6] Conference resolution 63 (III), para. 13.

[7] See General Assembly resolution 31/177 of 21 December 1976.

[8] See *Official Records of the Economic and Social Council, 1978, Supplement No. 13* (E/1978/53/Rev.1), chap. XX.

[9] DP/328.

ANNEXES

ANNEX I

Land-locked developing countries: basic statistics

Country	*Population* — *Number (millions) 1977*	*Population* — *Average annual increase (percentage) 1970-1977*	*Per capita GDP* — *In US dollars at 1976 prices 1977*	*Per capita GDP* — *Average annual growth rate*[a] *(percentage) 1970-1977*	*Per capita exports (dollars) 1977*	*Average annual growth rate of purchasing power of exports*[a] *(percentage) 1970-1977*	*Per capita imports (dollars) 1977*	*Average annual growth rate of volume of imports*[a] *(percentage) 1970-1977*	*External assistance per capita*[b] — *Total (dollars) 1976*	*External assistance per capita*[b] — *of which: Official development assistance (dollars) 1976*
Afghanistan	20.34	2.5	135	2.0	16.1	8.4	26.5	9.1	6.2	6.3
Bhutan	1.23	2.2	75[c]	..	..	..	..	..	2.7	2.7
Bolivia	5.95	2.7	424	3.2	119.8	10.1	97.8	10.3	46.1	12.9
Botswana	0.71	3.8	449	9.5	281.7	18.0	309.9	9.8	76.5	69.3
Burundi	3.97	2.4	82	−0.2	23.9	4.9	22.9	5.3	12.1	11.9
Central African Republic	1.87	2.2	218	−3.3	43.9	1.2	33.7	−2.0	21.6	21.3
Chad	4.20	2.1	122	1.3	16.7	1.8	33.3	2.5	15.7	15.2
Lao People's Democratic Republic	3.46	2.2	100	−2.3	4.3	1.6	15.6	−21.4	9.0	8.4
Lesotho	1.08	2.2	142	6.1	25.9	11.4	148.1	11.0	28.5	28.5
Malawi	5.53	2.6	143	4.3	35.3	4.6	42.5	3.2	14.3	12.4
Mali	5.99	2.5	93	0.7	11.2	2.1	24.2	6.0	18.1	17.5
Nepal	13.14	2.3	99	−0.2	8.6	1.1	13.7	1.4	3.9	3.9
Niger	4.86	2.7	173	0.5	34.0	10.0	30.9	2.7	31.7	27.4
Paraguay	2.81	2.1	684	4.8	99.3	6.5	109.6	7.7	23.1	14.9
Rwanda	4.37	2.6	91	1.6	21.1	9.2	26.1	10.0	20.5	20.2
Swaziland	0.51	3.2	565	7.1	294.1	−0.4	333.3	2.2	41.8	35.5
Uganda	12.35	3.3	259	−3.3	45.4	−4.2	20.2	−9.1	5.7	3.7
Upper Volta	6.32	2.3	74	−2.0	8.7	7.5	27.1	7.5	14.3	14.1
Zambia	5.35	3.2	484	0.0	167.7	−8.3	125.2	−4.8	34.1	25.9
Total land-locked developing countries	104.04	2.6	192	1.1	39.9	−2.3	41.3	−0.3	15.2	12.0
Total developing countries	2 093.46	2.5	505	3.1	74.9[d]	5.6[d]	91.5[d]	6.1[d]	21.2	8.9

[a] Trend rate for the period.

[b] Net disbursements of loans and grants, including guaranteed export credits, from DAC member countries and multilateral agencies largely financed by them; net disbursements of loans from socialist countries of Eastern Europe and from China; net disbursements of loans and grants from members of OPEC and multilateral agencies largely financed by them; IMF oil facility and gross commitments of Eurocurrency loans.

[c] 1976.

[d] Excluding major petroleum exporters.

ANNEX II

Main access to the sea for land-locked developing countries

	Originating point	Transit: Port	Transit: Country	Distance in kilometres	Means
Africa					
Botswana	Gaborone	Capetown	South Africa	1 400	Rail
	Gaborone	Maputo (via South Africa)	Mozambique	1 400	Rail
	Gaborone	Port Elizabeth	South Africa	1 200	Rail
	Gaborone	Durban	South Africa	1 100	Rail
Burundi	Bujumbura	Dar es Salaam	United Republic of Tanzania	1 455	Rail and water
	Bujunbura	Mombasa	Kenya	1 850	Road and rail
Central African Republic	Bangui	Pointe-Noire	Congo	1 815	Rail and water
	Bangui	Douala	United Republic of Cameroon	1 400	Road and rail
Chad	N'Djamena	Lagos	Nigeria	2 000	Rail and road
	Moundou	Port Harcourt	Nigeria	1 500	Water and road
	N'Djamena	Douala	United Republic of Cameroon	2 000	Rail and road
	Moundou	Douala	United Republic of Cameroon	1 715	Rail and road
	Sarh	Douala	United Republic of Cameroon	2 015	Rail and road
Lesotho	Maseru	Durban	South Africa	740	Rail
		East London	South Africa	800	Rail
Malawi	Blantyre	Beira	Mozambique	560	Rail
	Blantyre	Nacala	Mozambique	700	Rail
Mali	Bamako	Dakar	Senegal	1 289	Rail and road
	Bamako	Abidjan	Ivory Coast	1 250	Road and rail
	Bamako	Abidjan.	Ivory Coast through Upper Volta	1 170	Road and rail
Niger	Niamey	Cotonou	Benin	1 060	Road and rail
	Zinder	Abidjan	Ivory Coast	2 690	Road
	Niamey	Abidjan	Ivory Coast	1 690	Road and rail
	Zinder	Cotonou	Benin	1 700	Road and rail
	Niamey	Lomé	Togo	1 225	Road
	Zinder	Lomé	Togo	225	Road
Rwanda	Kigali	Dar es Salaam	United Republic of Tanzania	1 750	Road, water and rail
	Kigali	Mombasa	Kenya	1 790	Road and rail
Swaziland	Mbabane	Maputo	Mozambique	220	Rail
		Durban	South Africa	500	Rail and road
Uganda	Kampala	Mombasa	Kenya	1 450	Rail and road
Upper Volta	Ouagadougou	Abidjan	Ivory Coast	1 210	Road
	Ouagadougou	Abidjan	Ivory Coast	1 150	Rail
	Ouagadougou	Lomé	Togo	1 000	Road
	Ouagadougou	Tema	Ghana	900	Road
Zambia	Lusaka	Beira and Nacala	Mozambique (via Malawi)	2 570	Rail
	Lusaka	Dar es Salaam	United Republic of Tanzania	2 000	Road
America					
Bolivia	La Paz	Arica	Chile	450	Rail
	La Paz	Antofagasta	Chile	1 130	Rail
	La Paz	Matarani	Peru	800	Rail and water
	Sicasica	Arica	Chile	350	Pipeline
	Camiri	Yacuiba	Argentina	250	Pipeline
	Santa-Cruz-Carumbá	Santos	Brazil	2 550	Rail
	Santa-Cruz-Yacuiba	Buenos Aires	Argentina	2 470	Rail
Paraguay	Asunción	Buenos Aires	Argentina	1 600	River and rail
	Asunción	Montevideo	Uruguay	1 700	River and rail
Asia					
Afghanistan	Kabul	Karachi	Pakistan	2 000	Road and rail
	Kabul	Bandar Abbas	Iran	2 000	Road
	Kabul	Leningrad	USSR	9 000	Road, river and rail

ANNEX II

Main access to the sea for land-locked developing countries

	Originating point	Transit		Distance in kilometres	Means
		Port	Country		
Afghanistan (*continued*)	Kabul	Hamburg (via USSR)	Germany, Fed. Rep. of	10 600	Road, river and rail
	Kandahar	Karachi	Pakistan	950	Road and rail
Bhutan	Thimpu	Calcutta	India	600	Road and rail
Nepal	Kathmandu	Calcutta	India	890	Road and rail
Lao People's Democratic Republic	Vientiane	Bangkok	Thailand	670	Road, water and rail

Source: A transport strategy for land-locked developing countries: report of the Expert Group on the Transport Infrastructure for Land-locked Developing Countries (United Nations publication, Sales No. E.74.II.D.5), updated by the UNCTAD secretariat.

DOCUMENT TD/242

Specific action related to the particular needs and problems of island developing countries

Report by the UNCTAD secretariat

[*Original: English*]
[*19 February 1979*]

CONTENTS

I. *Introduction*

1. In its resolution 32/185 of 19 December 1977, the General Assembly took note of the report of the Secretary-General of the United Nations on progress in the implementation of specific action in favour of developing island countries[1] and welcomed the initiation of the measures specified therein. It also welcomed the activities undertaken by the United Nations Conference on Trade and Development, including the establishment of a unit in its secretariat devoted to the problems of least developed, land-locked and island developing countries. It urged all organizations in the United Nations system to continue to identify and implement, within their respective spheres of competence, appropriate specific action in favour of developing island countries, in accordance with the recommendations of Conference resolution 98 (IV), and further urged the United Nations organizations concerned, in particular the United Nations Development Programme and the regional commissions, to give attention to programmes of regional and subregional co-operation in respect of developing island countries. It called upon Governments, in particular those of the developed countries, to take fully into account, in their bilateral and regional development efforts and in relevant negotiations towards the attainment of the objectives of the new international economic order, the special problems of developing island countries.

2. The General Assembly further decided, in the same resolution, to keep under review all progress in the implementation of the resolution and requested the Secretary-General of the United Nations to submit to the General Assembly at its thirty-fourth session a sectoral analysis of action undertaken in favour of developing island countries and proposals for further consideration, taking into account the consideration of this question by the United Nations Conference on Trade and Development at its fifth session.

3. Conference resolution 98 (IV), paragraph 38, lists some impediments facing developing island economies in response to which specific action should be undertaken. Since its adoption, the characteristics of many island countries have been further clarified (see annexes). Further specific action is needed in the case of smaller, more remote island countries to offset their major handicaps in transport and communications, great distances from market centres, highly limited internal markets, low resource endowment, heavy dependence on a few commodities for their foreign-exchange earnings, shortage of administrative personnel and heavy financial burdens caused by the location of small numbers of people in islands remote from each other and from main centres.

4. Smallness of size imposes constraints which can compound adjustment problems in the development process. A small island economy must take in its stride fluctuations in the level of activities of a magnitude which even a larger country would probably regard as unmanageable. For example, agricultural output in one small island economy dropped by 22 per cent in one year and construction by 33 per cent. In the face of such fluctuations, medium-term planning and programming become difficult. Flexibility

[1] A/32/126 and Add.1.

becomes especially necessary in economic management, while itself imposing real costs in terms of efficiency in the design and implementation of projects and programmes. The need for flexibility extends to international assistance programmes. The Conference may wish to consider further efforts by the international community in the areas described below, particularly on behalf of the smaller, more remote, island developing countries.

II. *Feeder and inter-island transport services*

5. Pursuant to Conference resolution 98 (IV), paragraph 53, a group of experts was convened in October 1977 to consider feeder and inter-island services by air or sea for island developing countries. The Trade and Development Board at its eighteenth session took note of the report of the Group.[2]

6. The Group of Experts considered that the purely technical problems of inter-island transport were not too difficult to overcome, although, of course, ships, aircraft and infrastructure must be acquired, which called for funds and better information about sources of capital. The major problems in inter-island transport were financial, managerial and social. Transport links with smaller outer islands were unlikely to be financially viable: their provision had often to be seen as a matter of national social policy.

7. Recognizing the peculiar difficulties of ensuring a fair share of economic development to these remote communities, the Group of Experts stressed the inevitability of subsidizing such transport in many cases. This aspect of the major problem of regional policy affecting island developing countries is dealt with in paragraph 61 of Conference resolution 98 (IV). The Group of Experts stated that the form a subsidy might take, and the sources from which the funds for the subsidy were to be found, had far-reaching social as well as economic consequences. The international community was urged to make available technical assistance in this regard.

8. The Group also recommended that a series of regional seminars on the transport and trade aspects of outer-island policy be organized and made further recommendations on methods of aid management and delivery suitable for small island developing countries.

III. *Disaster insurance and prevention*

9. Islands are often especially subject to tropical cyclones, hurricanes, volcanic eruptions, earthquakes and tidal waves; hurricanes can have a particularly severe effect. Efforts should be made at the regional or global level to improve methods of mitigating or preventing damage from such natural disasters, including the encouragement of traditional local methods. The scope for setting up or improving regional or interregional disaster insurance schemes should be explored.

IV. *Regional co-operation*

10. A major contribution to the improvement of conditions for the smaller, more remote island countries can be provided through co-operation arrangements in a variety of fields, as well as through broader integration schemes. For example, the small island developing countries would greatly benefit from co-operation arrangements among themselves in areas such as the development of shipping, air services, telecommunications, tourism, insurance and reinsurance. These countries, because of their small size and remoteness, cannot afford to maintain expertise with respect to many services and therefore can particularly benefit from arrangements to share expertise. Minimum services will often require subsidization to the viable, and support from the international community will normally be necessary.

V. *Foreign trade*

11. The economies of small island developing countries cannot be balanced, nor can complex internal linkages be expected. There is a high dependence on imports and a corresponding requirement for the export of goods and services. The economies are very open. Economic events overseas and beyond the control of the island countries therefore have immediate and widespread effects on the local economy. Island developing countries should be supported in their efforts to diversify their foreign sectors; diversification of trading partners and of goods and services traded can be effective means of protecting them from imported economic instability.

12. Access to markets is not just a matter of tariff and non-tariff barriers. In the case of small island countries, it also involves the need to simplify the procedures required to take advantage of preferential access where it is in principle available; and it involves assistance with the expense and intricacy of the detailed negotiations with the Government or other interests in the countries to which they are interested in gaining or maintaining market access, and assistance with export promotion efforts. The cost—in money and manpower—of these activities can be prohibitive to small firms, or even to Governments, in small island developing countries.

13. Many island developing countries offer a welcoming environment for export processing and other industries or tourism. Such efforts should be supported by assistance from the international community in respect of:

(*a*) Investment in infrastructure (water, electricity, industrial estates, transport, etc.);

(*b*) Establishment of appropriate technical education and training programmes, including management training;

(*c*) Design of incentive packages;

(*d*) Simplification of procedures, so that small administrations and enterprises can take advantage of preferential access to markets where it is in principle available;

(*e*) Assistance in negotiating with foreign private investors.

14. For many island countries, human resources themselves are a major source of foreign exchange earnings. Several countries, both developed and developing, have drawn on this pool of labour to supplement their domestic labour forces. Migrant workers from the smaller, more remote, island developing countries can thus make an important economic contribution through their remittances. Studies of the means of maximizing the social and financial benefits to an island country from sending

[2] *Official Records of the Trade and Development Board, Eighteenth Session, Annexes,* agenda item 6, document TD/B/687.

migrants to work abroad, of ways of easing the adjustment of migrants in the host country without exploitation, and of alternatives to migration, could usefully be undertaken.

VI. *Financial assistance*

15. A country with a small population, especially if it is widely dispersed over a large number of islands, faces special development problems. Either smallness or remoteness can create difficulties; the combination imposes particular burdens.

16. First, such an economy is required to over-equip itself in comparison to the equipment levels of more conveniently located or larger communities. The smallest unit of a great number of necessary facilities is larger than a small community can fully utilize. This is true not only for physical plant but also, and to an even greater extent, for skilled manpower. Physical facilities tend to be used for a number of purposes and skilled manpower tends to have a number of functions. In such cases, the use of manpower or facilities is less than efficient and facilities may not be fully utilized, thereby adding to costs to a degree that is not immediately apparent.

17. Secondly, and paradoxically for the same reasons, such a country is underequipped in that it can lack fall-back or safety positions. Because the individual unit is too big relative to demand, standby units or substitutes cannot be justified, and the breakdown of a physical plant can thus lead to the total disruption of service. Similar problems emerge with respect to manpower: the illness or absence of one person can paralyse a service, as no substitute is available. In this situation, too, there are more than the usual difficulties in sparing people for specialized training, although the need for such training is widely recognized.

18. International programmes of assistance to island developing countries need to be flexible, given the special vulnerability of these countries, although this imposes real costs in terms of efficiency in the design and implementation of projects and programmes.

19. Assistance procedures should be simplified, in recognition on the one hand of the small total amounts to be disbursed, which cannot support heavy administrative overheads, and on the other of the limited time available to the few civil servants at the disposal of the Governments. Modifications in policy which donors might consider specifically for small island developing countries include:

(*a*) Shifting from project aid to programme aid;

(*b*) Investing aid missions with greater authority to commit the donor Governments;

(*c*) Adjustment of normal aid procedures to lighten the burden on the administrations.

20. Many island developing countries have found voluntary agencies to be efficient low-cost channels of assistance. The scope for expanding their role might be explored.

21. Some island countries are so small and lacking in economic prospects that special support, in the form of direct or indirect subsidies, is called for, as was stressed by the General Assembly in its resolution 31/48, in connexion with the special problems facing Tokelau "by virtue of its isolation, small size and meagre resources". In paragraph 8 of that resolution the General Assembly requested the specialized agencies and other organizations "to consider the methods and scale of their operations, in order to ensure that they are able to respond appropriately to the requirements of such small and isolated Territories as Tokelau". The Conference may wish to consider how this question should be examined further.

VII. *Technical assistance*

22. The small size of many island developing countries raises special manpower problems. First, there is a shortage of people to take on all the tasks, whether technical or policy-making, which any national administration must undertake. Furthermore, given the very small numbers involved, it is generally not possible to forecast where manpower gaps will occur. Secondly, there is no one to stand in for an official if he needs to go on mission or to obtain further training. Thirdly, certain tasks, although essential, do not require the full-time attention of a specialist. Some, indeed, may arise so rarely that it is not even worth training a local person to undertake them. Fourthly, in small civil services and in small communities, it may be difficult to present sufficient professional challenge and promotion prospects to retain outstanding talent.

23. Local counterparts to aid personnel should therefore not be specified unless they will be available and unless it makes sense to provide for them in the organizational structure. Donors should also look sympathetically upon requests for line personnel under technical assistance, who would train their subordinates and move out after a short handover period when a subordinate is ready to take over.

24. Donors should make available to small island developing countries replacement personnel who could take over the day-to-day work of island officials away for short periods on training courses or on mission. This would enable small island administrations to take advantage of opportunities now effectively out of their reach.

25. Often in small island countries there are tasks requiring the attention of specialists which, though essential, could not keep a specialist fully occupied. In such cases, it may be sensible to train a local person or recruit an expert whose services could be made available to a number of such countries. An alternative solution is for an expert based in his home country to be released from his main job intermittently to work in a particular small island developing country.

26. The Conference may also wish to consider the advisory services which UNCTAD itself could provide to small island developing countries, on an interregional or regional basis, in such fields as planning and policies for their foreign trade sectors, feeder and inter-island transport services, and regional economic co-operation. The Conference may wish to recommend suitable ways of financing such services, keeping in mind the need for continuity.

ANNEX 1

Island developing countries and territories: basic statistics

Country or territory	Population density and dispersion							Selected economic indicators (dollars per capita, 1976)				Per capita real product growth per annum, 1970-1977 (Percentage)
	Population (thousands) 1976	Number of inhabited islands	Land area (km^2)	Population density (inhabitants per km^2) 1976	Maximum length (km)	Dispersion (m/person)	Annual rate of growth of population 1970-1976 (percentage)	GDP	Imports	Exports	Aid[a]	
American Samoa	33	6	197	168	354	10.70	2.5	1 100[b]	1 536	3 030	1 148[c]	..
Antigua	71	2	442	161	115	1.61	1.4	509	1 070	535	44	..
Ascension	1.1	1	88	13	14	12.70	..	..	..	..	..	..
Bahamas	211	30	13 935	15	869	4.11	3.6	2 600[d]	16 872	13 644	3	..
Bahrain	259	–	580	446	60	0.23	3.2	4 425	6 440	5 857	575	..
Barbados	247	1	430	574	34	0.14	0.7	1 515	959	348	31	–1.6
Bermuda	57	1	53	1 075	25	0.44	1.7	5 300[b]	2 895	666	–	..
British Virgin Islands	12	16	130	92	60	5.00	3.1	2 667	967[e]	4 408[e]	216	..
Brunei	177	–	5 765	31	160	0.90	5.2	3 026	1 548	7 926	1	..
Cape Verde	303	10	4 033	75	323	1.07	2.1	470[b]	152	7	82	–4.6
Cayman Islands	11	3	260	44	182	16.54	0.8	..	3 251	6	191	..
Christmas Island (Indian Ocean)	3.2	1	135	24	22	6.87	..	..	..	..	..	..
Comoros	314	4	2 170	145	275	0.89	2.5	222	41	29	85	–3.3
Cook Islands	18	12	234	78	1 450	80.55	–2.6	468	..	..	386	..
Cuba	9 460	..	114 524	83	1 250	0.13	..	800[d]	430	378	4	..
Cyprus	640	1	9 251	69	225	0.35	0.9	1 216	672[f]	401	89	–2.9
Dominica	76	1	751	101	47	0.62	1.1	420	342	158	61	..
Dominican Republic	4 835	–	48 734	99	400	0.08	3.0	809	158	148	7	5.1
Falkland Islands (Malvinas)	2	8	430	5	275	137.50	..	..	2 500	2 000	..	..
Fiji	580	105	18 272	32	600	1.03	1.8	1 142	453	219	40	..
French Polynesia	132	120	4 000	33	2 300	17.42	3.3	4 754	2 235	167	588	..
Gilbert Islands	52[g]	16	655	79	4 500	86.70	..	730[b]	231	423	77	..
Grenada	96	2	344	279	76	0.79	0.4	614	271	135	28	..
Guam	102	1	549	186	48	0.47	3.0	4 420[b]	2 578	245	..	..
Haiti	4 668	6	27 750	168	300	0.06	1.6	250	44	27	15	2.9
Indonesia	139 616	..	1 904 344	73	5 295	0.04	2.6	267	41	61	5	5.1
Jamaica	2 057	..	10 991	187	235	0.11	1.6	1 478	444	308	14	–2.6
Madagascar	8 270	..	594 180	14	1 598	0.19	3.0	212	34	33	8	–2.9
Maldives	122	220	298	409	1 000	8.20	2.1	121	25	33	25	..
Malta	304	3	316	961	50	0.16	–1.1	1 453	1 385	753	134	12.9
Mauritius	870	4	1 843	459	1 120	1.30	1.3	676	413	305	21	10.7
Montserrat	13	1	98	133	18	1.38	1.4	1 036	615	–	259	..
Nauru	8	1	21	381	5	0.62	2.3	..	..	..	..	..
Netherlands Antilles	241	6	961	251	968	4.01	1.4	2 722	15 191	10 473	204	..
New Caledonia	135	..	19 058	7	750	5.55	3.1	6 658	2 037	2 230	344	..
New Hebrides	97	19	14 763	7	720	7.42	2.8	480[b]	309	155	319	..
Niue	4	1	259	16	20	5.00	–4.6	..	638[h]	61[h]	717	..
Papua New Guinea	2 829	..	461 691	6	1 600	0.56	2.1	521	152	202	85	0.1
Philippines	43 750	880	300 000	146	1 600	0.04	2.9	407	90	59	4	3.2

ANNEX I (*continued*)

Island developing countries and territories: basic statistics (*continued*)

Country or territory	Population (thousands) 1976	Number of inhabited islands	Land area (km²)	Population density (inhabitants per km²) 1976	Maximum length (km)	Dispersion (m/person)	Annual rate of growth of population 1970-1976 (percentage)	GDP	Imports	Exports	Aid[a]	Per capita real product growth per annum, 1970-1977 (Percentage)
	Population density and dispersion							*Selected economic indicators (dollars per capita, 1976)*				
Pitcairn	0.1	1	5	15	3	30.00	..	..	..	..	..	..
Puerto Rico	3 213	..	8 897	361	290	0.09	2.9	3 027	1 691	1 041	..	0.5
St. Helena	5	1	122	41	17	3.40	..	..	502[h]	–[h]	564	..
St. Kitts-Nevis-Anguilla	66	4	357	185	190	2.87	0.5	587	409	121[h]	6	..
St. Lucia	110	1	616	179	50	0.45	1.2	598	436	173	67	..
St. Vincent	100	6	389	257	92	0.92	..	339	240	90	44	..
Samoa	151	4	2 842	53	165	1.09	1.0	350	199	46	82	..
Sao Tome and Principe	80	2	964	80	220	2.90	1.6	407	137	87	146	–4.1
Seychelles	59	..	440	134	1 220	20.67	2.2	688	728	34	126	0.7
Singapore	2 278	1	581	3 921	40	0.02	1.6	2 594	3 982[i]	2 891	5	6.9
Salomon Islands	197	19	29 784	7	1 450	7.36	3.5	319	132	117	98	..
Sri Lanka	14 270	1	65 610	218	450	0.03	2.2	228	39	40	13	2.5
Tokelau	1.6	3	10	200	179	89.50	..	..	..	54[h]	467	..
Tonga	90	6	700	129	780	8.66	0.5	28	167	78	49	..
Trinidad and Tobago	1 100	2	5 128	214	210	0.19	..	2 194	1 796	2 013	4	8.7
Tristan da Cunha	0.3[j]	1	98	3	10	33.30	..	..	..	..	..	..
Trust Territory of the Pacific Islands	125	96	1 852	67	4 500	36.00	4.6	500[b]	307	38	717	..
Turks and Caicos Islands	6	8	430	14	140	23.33	1.5	616	817	267	626	..
Tuvalu	5.9	8	25	236	680	115.25	..	..	..	..	500	..
United States Virgin Islands	100	3	345	290	83	0.80	..	5 080[b]	26 810	..	..	..
Wallis and Futuna	9	2	274	33	250	27.78	..	..	..	..	541	..

Sources: United Nations, *Demographic Yearbook, 1976* (United Nations publication, Sales No. E/F.77.XIII.1) and *Monthly Bulletin of Statistics*, December 1978; IMF, *International Financial Statistics*, December 1978 (Washington, D.C.); *The Europa Year Book, 1977*, vol. II, and *1978*, vol. II (London, Europa Publications Ltd.); *Pacific Islands Year Book, 1972* and *1977* (Sydney, Pacific Publications); and national statistics.

[a] Official development assistance, including aid from socialist countries of Eastern Europe and China.

[b] GNP in 1974.

[c] Congressional plus federal grants.

[d] GNP in 1975.

[e] 1974.

[f] Excluding NAAFI imports.

[g] 1973.

[h] 1975.

[i] Excluding trans-shipments to and from peninsular Malaysia.

[j] 1970.

ANNEX II

Classification of island developing countries and territories by population, income level, land area and distance from the nearest continent

Population	Income level: per capita GDP in 1976 (dollars)	Distance from nearest continent[a]: Less than 500 km.	500 to 1,500 km.	More than 1,500 km.
Over 1 million	Under 250	Sri Lanka L	Madagascar L	
	250-500		Haiti M Indonesia L Philippines L	
	500-1,000	Cuba L	Dominican Rep. L Papua New Guinea L	
	Over 1,000	Singapore VS Trinidad and Tobago M	Jamaica M Puerto Rico M	
150,000 to 1 million	Under 250	Comoros S		
	250-500		Cape Verde M	Samoa S Solomon Islands M
	500-1,000			Mauritius S
	Over 1,000	Bahamas M Bahrain VS Cyprus M Malta VS Netherlands Antilles S	Barbados VS	Fiji M
Under 150,000	Under 250		Maldives VS	
	250-500	Sao Tome and Principe S	St. Vincent VS Dominica VS	Cook Islands VS New Hebrides M Tonga VS
	500-1,000		Antigua VS Grenada VS St. Kitts-Nevis-Anguilla VS St. Lucia VS Turks and Caicos Islands VS	Gilbert Islands VS Seychelles VS Trust Territory of the Pacific Islands S
	Over 1,000		Bermuda VS British Virgin Islands VS Montserrat VS New Caledonia M United States Virgin Islands VS	American Samoa VS Brunei M French Polynesia M Guam VS

Source: UNCTAD secretariat, based on data from the United Nations Statistical Office and the World Bank.

[a] Distance from the island's capital to the capital or an important town of the nearest continental country.

Note. Land area:
VS = very small (below 1,000 sq.km.);
S = small (1,000 to 3,999 sq. km.);
M = medium (4,000 to 39,999 sq.km.);
L = large (40,000 sq.km. and above).

AGENDA ITEM 17*

DOCUMENT TD/243**

Trade relations among countries having different economic and social systems and all trade flows resulting therefrom

Report by the UNCTAD secretariat

[*Original: English*]
[*8 February 1979*]

CONTENTS

Introduction

1. At its eighteenth session, the Trade and Development Board decided to include in the provisional agenda for the fifth session of the United Nations Conference on Trade and Development the following substantive item: trade relations among countries having different economic and social systems. Pursuant to that decision, the present report has been prepared with a view to facilitating consideration of this item.

2. The report deals with issues connected with the expansion of trade and the intensification of economic co-operation among countries having different economic and social systems and is based on the latest developments and the problems experienced in this area by the three groups of countries involved. The report attempts also to point out action to be taken in this field by the UNCTAD member countries as well as by the UNCTAD secretariat. It should be read in conjunction with the supporting papers prepared by the secretariat for this item of the agenda.[1]

CHAPTER 1

Present state of trade relations

3. The realities of world economic development have brought to the fore the task of establishing a new international economic order and restructuring inter-

* For the agenda, see Vol. I, part three, para. 6.

** Incorporating document TD/243/Corr.1.

[1] See the following papers prepared by the UNCTAD secretariat: "Statistical review of trade among countries having different economic and social systems" (TD/243/Supp.1); "Trade and economic relations between Latin American countries and countries members of the Council for Mutual Economic Assistance" (TD/243/Supp.2); "Co-operation mechanism among countries having different economic and social systems" (TD/243/Supp.3); "Co-operation in planning between socialist countries of Eastern Europe and developing countries: the experience of the USSR" (TD/243/Supp.4). See also document TD/243/Supp.5, reproduced in the present volume.

national economic relations. Many decisions taken within the United Nations system have been aimed at serving this end and, among other measures, the necessity of further intensifying trade flows and economic relations among countries having different economic and social systems has been stressed. Most of the issues pertaining to these trade flows and economic relations are of a long-term and continuous nature and therefore the relevant decisions of the United Nations bodies, including Conference resolutions, which call upon the countries from various groups to achieve the goal of further expansion of this sector of international trade, continue to be valid.

4. Trade among countries having different economic and social systems has evolved against the background of world economic performance in general, which has been characterized by an uneven economic growth in various groups of countries. For some years now, following the severe recession, the developed market-economy countries have continued to face many economic problems, in particular those of achieving sustained economic growth and a significant reduction in unemployment, curbing inflation and expanding trade. After a promising but uneven recovery these countries, having attained a GDP growth rate of 5.3 per cent in 1976, witnessed a slowdown of the growth rate in 1977 of about 3.7 per cent.[2] The rate of expansion in the volume of these countries' trade declined in 1977 and this reduction had a major impact on world exports, which in volume terms increased in 1977 by 4 per cent as against 11 per cent in 1976.[3]

5. The developing countries taken as a whole have attained relatively high growth rates in recent years, with 6.3 per cent in 1977 and 6 per cent in 1976, as compared with 3.9 per cent in 1975. This improvement was due mainly to the relatively favourable conditions in commodity markets and improvements in agriculture. At the same time the growth of industrial production in these countries in 1977 slowed down to 6.9 per cent from 8.8 per cent in 1976. This slackening reflected to some extent the pace of recovery in the developed market-economy countries. Uncertainty on the world market also affected the rate of growth of the developing countries' exports, which fell in volume terms from 14.2 per cent in 1976 to 1977.[4] In these conditions, many developing countries are looking for new alternative markets, including those of the socialist countries of Eastern Europe, in order to diversify the geographical structure of their trade.

6. Compared with the performance of other regions of the world, the economic performance of the socialist countries of Eastern Europe has been characterized by relatively greater stability, despite the fact that planned growth rates in many of these countries have been lower than expected in recent years, owing mainly to poor weather conditions--which affected agriculture and related sectors of the economy—and to increased capital intensity of production and labour shortages. In 1974-1977 the growth rates of these countries were maintained at an average level of 5.3 per cent. At present, the economies of the socialist countries of Eastern Europe are being developed on the basis of five-year plans for 1976-1980 in which priority is given to qualitative factors of growth.

7. Great emphasis in these plans is placed on the development of external economic relations, which are relied. upon to a great extent in the socialist countries' efforts to assure sustained economic growth. As a result, their foreign trade has been expanding faster than national income and industrial production (see table). The total trade turnover of these countries in 1977 exceeded $200 billion, amounting to about 9.1 per cent of the world trade.

Economic growth of the socialist countries of Eastern Europe, 1974-1977 (at constant prices)

(Percentage over preceding year)

	National income	*Industrial production*	*Agricultural production*	*Foreign trade turnover*
1974 .	6.5	8.5	-1.0	27.5
1975 .	5.3	7.9	-4.2	19.3
1976 .	5.4	5.9	3.0	9.4
1977 .	5.1	6.4	2.7	13.3

Sources: Annual reviews of trends and policies in trade between countries having different economic and social systems (TD/B/615 and Corr.1, TD/B/656 (*Official Records of the Trade and Development Board, Seventeenth Session (first part), Annexes* agenda item 3) and TD/B/708 (*ibid., Eighteenth Session, Annexes,* agenda item 3)); and *World Economic Survey, 1977* (United Nations publication, Sales No. E.78.II.C.1).

8. The rapid growth of intraregional trade of the member countries of the Council for Mutual Economic Assistance (CMEA) resulted from economic integration measures in the framework of CMEA, particularly the co-ordination of long-term national economic plans. Parallel to the rapid expansion of their mutual co-operation, the members of CMEA pursue a policy of intensive development of trade and economic relations with countries in other regions, i.e. with the developing countries and the developed market-economy countries. These flows of trade have been developing faster than the intraregional trade of CMEA countries and have accounted for about 45 per cent of these countries' trade in 1977, as against 37.4 per cent in 1970. In 1977, the share of the developing countries and of the developed market-economy countries in the total exports of the socialist countries of Eastern Europe was 17 per cent and 24.9 per cent respectively, while their share in the total imports of the socialist countries was 13.3 and 32.4 per cent respectively.

9. Although trade among countries having different economic and social systems constitutes a relatively modest share of world trade, it seems that the importance of this flow in international trade is higher than it may be judged to be on the basis of quantitative estimates. The socialist countries of Eastern Europe, having a planned economic system, tend to have a stabilizing effect both in trade relations among countries having different economic and social systems, particularly with those countries with which they have intensified trade relations, and in international economic relations as a whole.

10. In recent years, the partners involved in trade among countries having different economic and social

[2] See *Official Records of the Trade and Development Board, Eighteenth Session, Annexes,* agenda item 2, document TD/B/712.

[3] *World Economic Survey, 1977* (United Nations publication, Sales No. E.78.II.C.1).

[4] *Ibid.*

systems have taken various measures conducive to the further development of this sector of international trade; these measures reflected their interest in mutually advantageous relations and led in some cases to a considerable increase in their trade. New partners, particularly among the developing countries, have entered into trade relations with the socialist countries of Eastern Europe, and new forms and areas of co-operation have emerged and become in some cases a regular practice.

11. The most fruitful results in expanding mutual economic relations have been attained so far by those partners which have managed to elaborate and apply, within the solid legal framework and institutional machinery already established by them, mutually supporting policies and measures that take into account the possibilities and interests of the partners. The positive results in these relations may be attributed to the conclusion and implementation of a vast network of medium-term and long-term agreements and co-operation programmes in various fields of trade, economic, technical and scientific co-operation. The majority of the partners in East-West trade have concluded such long-term agreements, numbering so far over 250.[5] A great number of agreements of various kinds have been concluded between the developing countries and socialist countries of Eastern Europe. In addition to numerous long-term trade agreements, the USSR has concluded agreements on economic co-operation with more than 60 developing countries, Poland and the German Democratic Republic with more than 40 developing countries, Bulgaria with about 30 such countries. According to UNCTAD secretariat estimates, about 90 per cent of the trade between the socialist countries of Eastern Europe and developing countries is covered by intergovernmental agreements.[6] Many of the agreements mentioned have been concluded for a period of five and even 10 years.

12. In this respect, a new feature emerging in recent years has been the extension of treaty obligations over a period of 10 years or more. Such was the case of the USSR-Finland and USSR-India co-operation programmes, which extend up to 1990, and the USSR-Federal Republic of Germany agreement, concluded for 25 years. The USSR and France are also elaborating a co-operation programme covering the period up to 1990. Several agreements providing co-operation in specific fields for a period of several decades have been signed by some CMEA countries and, *inter alia*, Afghanistan, Brazil, Guinea, Iran, Morocco.

13. The experience of trade between countries having different economic and social systems has clearly demonstrated that intergovernmental agreements between individual partners in this trade, as well as agreements at the enterprise level, serve as an important instrument in expanding various forms of co-operation on a stable basis. Therefore it seems that the practice of concluding trade and economic co-operation agreements, which corresponds to the relevant UNCTAD recommendations, particularly those contained in Conference resolution 95 (IV), should be extended, especially by those countries which have not as yet established a solid legal basis in their economic relations with the socialist countries of Eastern Europe.

14. The socialist countries of Eastern Europe have stressed their willingness to develop trade and economic co-operation with the developing countries, in accordance with the principles of non-discrimination, equity and mutual advantage, and to concentrate on the areas of importance for the developing countries in order to enhance their economic independence, strengthen their economic position in the world economy, and support their efforts to modify, in the spirit of a new international economic order, the historical patterns of trade and other relationships which have resulted in an excessive dependence on the developed market-economy countries.[7]

15. In quantitative terms, trade among countries having different economic and social systems, particularly between the developing countries and socialist countries of Eastern Europe, has increased substantially in recent years. Taken as a whole, trade between these two groups of countries has been constantly growing at high rates, exceeding the rates of expansion of both East-West trade and intra-CMEA trade. In fact, the two-year period 1976-1977, while East-West trade increased by 14.8 per cent and intra-CMEA trade by 24.9 per cent, trade between developing countries and the socialist countries went up by 27.6 per cent. However, the bulk of trade between developing countries and socialist countries is still concentrated on 20 to 25 developing countries, which accounted for about 90 per cent of the over-all turnover with the socialist countries of Eastern Europe. This once again shows the need for further improvement in the geographical distribution of this trade.

16. A certain progress has been registered in the diversification of the structure of the developing countries' exports to the socialist countries of Eastern Europe, and a number of non-traditional items (electrical equipment, various apparatus and instruments, metals and metal manufactures, chemicals, fertilizers, phamaceuticals, textiles and footwear) have tended to occupy a greater share in these exports. Nevertheless, it seems that there is still room for further diversification of the developing countries' exports to the socialist countries and the partners could take appropriate steps in order to achieve this end.

17. In trade between the two groups the trade balance has traditionally favoured the socialist countries of Eastern Europe, although as a rule this disequilibrium in exports to the developing countries and imports therefrom results from the exports of capital goods from the socialist countries of Eastern Europe delivered on a long-term credit basis for the implementation of development projects. Whenever appropriate, additional measures might be necessary with a view to achieving a better balance between these exports and imports. At the same time, such measures should not compromise the further increase of economic and technical co-operation, in particular, deliveries of complete plans and equipment on a long-term credit basis.

[5] See the document prepared for the Committee on the Development of Trade of the Economic Commission for Europe entitled "Register of long-term agreements on economic co-operation and trade: note by the secretariat" (TRADE/R.371).

[6] See "The co-operation mechanism among countries having different economic and social systems: study by the UNCTAD secretariat" (TD/243/Supp.3).

[7] Joint statement by socialist countries at the fourth session of the Conference (TD/211). See *Proceedings..., Fourth Session*, vol. I, *Report and Annexes* (United Nations publication, Sales No. E.76.II.D.10), annex VIII, sect. F.

18. East-West trade has also been growing continuously during the present decade, although in 1976 and 1977 the rate of growth slowed down considerably. The economic performance in the developed market-economy countries affected unfavourably the socialist countries' exports and consequently their hard currency earnings needed to sustain their imports. At the same time, the socialist countries of Eastern Europe, having accumulated during previous years considerable deficits in trade with the developed market-economy countries, resulting in the increase of their indebtedness to those countries, decreased their purchases from the West in order to avoid further deterioration of their trade balances.

19. The existing opportunities in East-West trade are not always fully exploited and the level of East-West trade does not correspond to the economic possibilities of the partners. Up to now there has been a serious disequilibrium in the commodity structure of this trade, with socialist countries of Eastern Europe being exporters mainly of raw materials, fuels and agricultural products, while manufactured items had a marginal share in their exports. The task of restoring the socialist countries' trade balances could be achieved through increased exports to developed market-economy countries, including technology-intensive products. At the same time it seems that, in order to achieve this goal, the socialist countries of Eastern Europe have to take additional measures aimed at the supply of high-quality goods to the Western countries and improvement of their marketing activities therein.

20. The further expansion of East-West economic relations also requires, among other measures, the removal of obstacles, particularly those of a discriminatory nature, which some developed market-economy countries apply in many cases exclusively to goods from the socialist countries of Eastern Europe. The Conference on Security and Co-operation in Europe (Helsinki, 1975) contributed greatly to the process of normalization of East-West trade and the development of all kinds of economic relations between the parties thereto. In recent years, however, a certain slowness has been apparent in the liberalization of this trade—a trend which has been aggravated by growing protectionism in the developed market-economy countries and which calls for appropriate steps to be taken by the countries concerned in order to improve this situation. It is generally acknowledged that all flows of trade among countries having different economic and social systems are closely interrelated. "East-West trade is an integral part of world trade and ... the expansion of this flow of trade would positively affect the expansion of international trade as a whole, including the trade of developing countries, provided that necessary constructive measures to promote trade and economic relations with developing countries are undertaken by those two groups of countries."[8] Removal of obstacles to trade in East-West relations will correspond to the spirit of this recommendation.

21. At the same time, with a view to fostering trade among countries having different economic and social systems and to developing both traditional and new forms of trade and economic co-operation between partners, including co-operation on a multilateral basis, the participants from all three groups of countries should consider and apply additional measures to achieve this end.

[8] Conference resolution 15 (II), seventh preambular paragraph.

Chapter II

Ways and means of expanding trade and economic co-operation

22. With a view to achieving the policy objectives in trade among countries having different economic and social systems, a wide range of ways and means, including the strengthening of legal instruments, institutional arrangements, policy measures and various forms of co-operation, are applied by the parties concerned. The growing interest in such trade and economic co-operation encourages countries to search for the best possible mix of ways and means to benefit from the existing opportunities. Countries which have defined precisely the objectives expected from trade have also succeeded in creating an environment favourable to their attainment.

23. A sustained long-term policy effort on the part of all countries involved is indispensable in order to implement a combination of legal and institutional measures that facilitate the attainment of the policy objectives. Trade-creating impulses have had to be developed through the conclusion of long-term trade and co-operation agreements, the established institutional framework and active governmental policies aimed at expanding and further intensifying trade and economic co-operation among countries having different economic and social systems.

24. In trade between developing countries and socialist countries of Eastern Europe, measures should aim particularly at promoting stable and diversified trade flows, expanding the geographical basis and commodity structure of trade and intensifying economic and technical co-operation. The socialist countries of Eastern Europe should join their efforts with those of interested developing countries in order to assist the latter, as stipulated in Conference resolution 95 (IV), to arrive at a comprehensive solution in solving their major economic tasks, in particular in the fields where complementarity in economic structures is apparent. The countries of the two groups should also be encouraged to continue, whenever appropriate, the practice of repaying credits granted by socialist countries through the delivery of goods by developing countries; to promote appropriate payments arrangements. and to facilitate new forms of co-operation—industrial specialization, co-operation in third countries, co-operation in planning, multilateral co-operation, including tripartite industrial co-operation, etc.

25. A solid legal basis, both internal and international, has already been created by many of the partners involved in this flow of trade and economic co-operation. Internally, many interested countries have adopted a variety of legal regulations promoting exports and imports and co-operation between national and foreign enterprises and defining the methods of payment, financing and crediting, and a number of fiscal and institutional measures, etc. The international legal basis consists mainly of inter-governmental agreements and arrangements.

26. The intergovernmental agreements are the main instruments available to the interested countries in their effort to expand and intensify their mutual trade and economic relations. Various functions are performed by these agreements: establishment of trade and economic relations; mutual granting of favourable conditions, including MFN treatment (with appropriate exemptions with regard to the imports of goods originating from developing countries under GSP schemes and some others); securing of a higher degree of stability in mutual deliveries and in economic co-operation. The growing number of long-term agreements between the socialist countries of Eastern Europe and their partners from the other two groups of countries confirms their increasing role as an important tool enabling the Governments to pursue over-all and long-term policies and avoid *ad hoc* solutions.[9]

27. However, not all countries take sufficient advantage of the possibilities that such a legal framework, both internal and external, can offer. That is why further strengthening of the internal regulations aimed at facilitating trade and economic relations with partners having different economic systems is needed in many cases. Furthermore, the use, through joint efforts, of such efficient external instruments as the intergovernmental agreements of both general and specific nature could promote more stable and diversified trade flows.

28. Rarely do partners in trade among countries having different economic and social systems sign all the agreements in existence in this field. They usually make a choice among them on the understanding that each one has a definite scope of impact and can produce specific effects. However, the analysis of individual cases shows that there is a correlation between the number (and variety) of agreements signed by two partners and the satisfactory results they have been able to derive from mutual economic relations.

29. Among the agreements in existence, a particular role is played by long-term framework agreements and co-operation programmes in which the directions and areas of co-operation are agreed upon. Thus the recent period has witnessed an increasing number of agreements on economic, industrial, technical and scientific co-operation of the socialist countries with both developing countries and developed market-economy countries. On the basis of such comprehensive long-term trade and economic co-operation agreements, the socialist countries of Eastern Europe have completed or are engaged in the implementation in developing countries of more than four thousand industrial and other projects.[10]

30. The optimum utilization of this variety of agreement—in particular, agreements on co-operation in the field of production—should be encouraged by the partner countries with a view to promoting both East-West trade and trade between developing countries and socialist countries of Eastern Europe. It seems that particularly good prospects in this respect lie in the development of industrial co-operation, which has been getting more impetus in East-West trade in the form of co-production, sub-contracting, joint ventures, etc.

31. The industrial co-operation between developing countries and socialist countries of Eastern Europe is concentrated in key industrial sectors of developing countries (including the engineering industry, metallurgy, power generation, mining, light industries and food industries), enhancing their industrialization process and technological capacity. In many cases the projects set up with the assistance of the socialist countries of Eastern Europe form the core of the national economies of developing countries. In line with the recommendations of UNCTAD, in the period since the fourth session of the Conference the economic and technical co-operation between the two groups of countries has been considerably intensified. Many new agreements on such co-operation have been concluded between the socialist countries of Eastern Europe and a number of developing countries, such as Angola, Costa Rica, Guyana, Jamaica, Mexico, Morocco, Mozambique and Venezuela. With those developing countries with which such co-operation has been developing for many years (such as Algeria and India), the new agreements provide for the considerable enlargement and modernization of already existing production capacities. In 1975-1977, economic and technical assistance to developing countries increased considerably, including deliveries of complete plants and equipment on a long-term credit basis for the projects under construction in developing countries, training of personnel in enterprises of both developing countries and socialist countries, etc. The bulk of this assistance has been provided in industry, though the number of projects in agriculture has also increased.

32. Industrial co-operation not only results in an increase in trade among countries having different economic and social systems but also facilitates the process of trade diversification. This relates particularly to co-operation agreements on the basis of compensation (pay-back arrangements).

33. Recently co-operation between developing countries and socialist countries of Eastern Europe in the field of planning has been spreading.[11] This co-operation, which as stipulated in Conference resolution 95 (IV), covers various forms of assistance, ranging from exchange of information to assistance to developing countries in the elaboration of their national plans and programmes, could develop to include partial co-ordination of the plans and programmes of developing countries with the plans of the socialist countries of Eastern Europe. Such a form of co-operation could ensure a higher degree of stability in mutual trade flows, in particular the planned expansion of imports of goods, including manufactures, from developing countries.

34. Pursuant to Conference resolution 95 (IV), member countries of UNCTAD having different economic and social systems have continued their efforts to strengthen the mechanism of mutual co-operation. A central role in this

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[9] By 1978, several hundred long-term agreements on trade and economic co-operation had been concluded between socialist countries of Eastern Europe and developing countries. (For details, see TD/243/Supp.3.)

[10] See the report of the Trade and Development Board on its eighteenth session (*Official Records of the General Assembly, Thirty-third Session, Supplement No. 15* (A/33/15), vol. II), para. 121.

[11] For details see "Co-operation in planning between socialist countries of Eastern Europe and developing countries: the experience of the USSR: report by the UNCTAD secretariat" (TD/243/Supp.4).

mechanism is played by the mixed intergovernmental commissions which consider all issues pertaining to bilateral relations such as trade, economic, industrial, scientific and technological co-operation, transport, payments, etc. They now form a body which primarily sets tasks, targets and guidelines, supervises and reviews the implementation of the agreements concluded, explores possibilities and suggests measures to promote their fulfilment, and serves as an important channel for the exchange of information on concrete opportunities for trade expansion and economic co-operation. Various subsidiary organs, such as sub-commissions or working groups, are established within the commissions to deal with particular issues of co-operation, including co-operation in specific branches and industrial sectors.

35. Between partners which have already developed considerable relations, co-operation is being institutionalized in specific areas by agreements between various ministries, committees and other similar bodies on the implementation of joint projects in specific fields. The permanent exchange of trade missions and high-level economic delegations is another tool for promoting mutually beneficial relations. The intensification of co-operation between enterprises and economic organizations has given rise to other forms of institutional set-ups at non-governmental level through various arrangements between chambers of commerce, banking institutions, economic research and scientific institutes, activities of businessmen, etc. Among the latter co-operation arrangements, the chambers of commerce deserve the special attention of the partners. They can be very useful as channels for establishing contacts and co-operation betwen enterprises and organizations, as well as for providing information on legal regulations, import and export policies, organization of foreign trade, transport facilities, etc. The chambers of commerce can also encourage the participation of their members in international fairs, contribute to the work of mixed intergovernmental commissions or undertake to co-operate within their competence in the fulfilment of the decisions of these commissions.

36. The members of UNCTAD should continue to seek jointly the most appropriate ways and means of further strengthening the co-operation mechanism referred to above, *inter alia,* intensification of the efforts to use to the maximum extent the already established channels of co-operation; adoption of a more dynamic approach in the activities of the existing mixed intergovernmental commissions aimed at implementing mutual commitments undertaken so far and putting into effect practical measures tailored to the changing and newly arising needs of the partner countries; creation of intergovernmental commissions in cases where partners have not done so until now; promotion of closer co-operation at the level of production enterprises and organizations; and closer co-operation between chambers of commerce, involving more active participation of business circles.

Promotion of multilateral forms of trade and economic co-operation

37. Bilateral trade and economic relations between countries having different economic and social systems, in particular between developing countries and socialist countries of Eastern Europe, are gradually being supplemented by multilateral forms of co-operation, both at intergovernmental and enterprise level. Although these forms still represent a limited portion of the over-all co-operation, multilateral approaches have been sought in specific cases and a trend towards the widening of multilateral links has been clearly apparent in recent years.

38. The spread of multilateral forms of co-operation has been due to a large extent to the development of the co-ordination and integration process within CMEA. Throughout the 30 years of its activities CMEA has greatly contributed to the promotion of trade and economic co-operation between the member countries, notably with 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. In addition to the traditional bilateral co-operation, the Comprehensive Programme gave a strong impetus, on the one hand, to multilateral co-operation between the member countries and, on the other, to the promotion of economic relations on both a bilateral and a multilateral basis with non-member countries.

39. The multilateral co-operation between developing countries and socialist countries of Eastern Europe has progressed alongside the accumulation by both parties of relevant experience in this field. The socialist countries of Eastern Europe have been acquiring experience of multilateral co-operation in the course of the implementation of the Comprehensive Programme.

40. Several types of multilateral co-operation have recently evolved, having diverse characteristics with regard to the duration of co-operation (some of them are predominantly based on contracts of a short-term character while others presuppose longer-term agreements on multilateral co-operation), the degree of bearing on trade and economic relations between the partners involved, the nature of partnership, etc. Some of them have already passed the initial stage of their development and strongly influence the over-all trade between the partners, while others have emerged only recently and the first steps are being taken in their implementation.

41. The trend towards multilateralization of payments in trade between developing countries and socialist countries of Eastern Europe has become, in line with the relevant decisions of UNCTAD, more pronounced in recent years. An intergovernmental group of experts on payments arrangements between the two groups of countries was convened in December 1977. In its report,[12] the Group, while noting that progress had been made towards multilateralization of payments between the socialist countries of Eastern Europe and the developing countries, encouraged further multilateralization of payments arrangements and, at the same time, came to the conclusion that at this stage no single method of introducing elements of multilateralism in the existing system of payments between

[12] See "Report of the Intergovernmental Group of Experts to Study a Multilateral System of Payments between Socialist Countries of Eastern Europe and Developing Countries" (TD/B/683), reproduced in *Multilateralization of payments in trade between socialist countries of Eastern Europe and developing countries: selected documents* (United Nations publication, Sales No. E.78.II.D.4).

the two groups of countries could be recommended, particularly in view of the specific needs and interests of developing countries, since some of them still preferred the traditional methods of payment. The Group recommended that interested members of UNCTAD should encourage direct contacts between their experts in the field of payments, using the facilities provided by the UNCTAD machinery, in particular the established mechanism for bilateral and multilateral consultations and the UNCTAD technical assistance activities. What is necessary now is more active implementation of the recommendations of the Group by the member countries, with a view to adapting the methods of payment to their specific interests and needs. UNCTAD could periodically review the implementation of these recommendations.

42. The functioning of the system of multilateral payments through the use of transferable roubles established by the countries members of the International Bank for Economic Co-operation (IBEC) of CMEA offers another possibility of multilateral co-operation for non-member countries. Both developing countries and socialist countries of Eastern Europe should be encouraged to study further possibilities arising in that area, in particular to make further efforts towards the implementation of the UNCTAD recommendation concerning the use of a developing country's surplus balance with one IBEC member country for settling accounts with another, a possibility which has not materialized so far.

43. The co-operation of organizations of several socialist countries in economic and technical assistance to developing countries has recently been gaining ground. A number of industrial and other projects have been or are being carried out in developing countries as a result of such multilateral co-operation. Though these projects have accounted for a comparatively modest share in the over-all volume of trade and economic relations, their role is expected to grow with the deepening of specialization and co-operation in production within CMEA.

44. Tripartite industrial co-operation, which involves partners from developing countries, socialist countries of Eastern Europe and developed market-economy countries, is another form of multilateral co-operation among countries having different economic and social systems. This co-operation would provide an additional source for transfer of technology, machinery and equipment to developing countries and would promote business activity in the recipient country, training of local personnel, etc. Tripartite industrial co-operation would increase available manufactures not only for local consumption but also for export. The same end may be served if the practice of compensatory deals is spread over the resultant products of tripartite co-operation arrangements. The developing countries should pay particular attention to this co-operation, and socialist countries and developed market-economy countries should encourage its further development by taking into account the needs of developing countries.[13] UNCTAD should continue reviewing the developments in tripartite industrial co-operation.

45. Recently, co-operation in third countries, which was initiated in East-West relations, has spread, in line with UNCTAD recommendations, to partners from developing countries. Wherever the conditions exist, the participation of organizations or enterprises of developing countries could be included in joint projects undertaken by the socialist countries and developed market-economy countries in third countries. In this way, interested developing countries could find an additional means of promoting their exports, being subcontractors or partners in such schemes. The socialist countries of Eastern Europe and the developing countries should be encouraged to promote further their co-operation on the markets of third countries.

46. Various forms of multilateral co-operation are directly or indirectly linked to the economic integration process within CMEA. It seems, therefore, that the co-operation of CMEA and the CMEA multilateral schemes with non-member countries or their economic organizations could be a promising area for furthering trade and economic co-operation among countries having different economic and social systems, in particular between developing countries and socialist countries of Eastern Europe. In recent years, CMEA has enlarged the scope of its co-operation with non-member countries. Multilateral co-operation may be envisaged in a special agreement between CMEA as a whole and individual non-member countries. In the 1960s and 1970s a number of non-member countries (Yugoslavia, Iraq, Mexico and Finland) have institutionalized multilateral co-operation with CMEA as a whole through a new form of agreement in which one of the two parties is a multilateral body. In concluding multilateral agreements with the socialist countries, the countries from other groups were motivated by the fact that the multilateral approach was opening further possibilities for co-operation and fostering already existing bilateral relations. The trade-generating effect of multilateral agreements was confirmed by the rapid expansion of the trade of CMEA member countries with Yugoslavia and Finland following the conclusion of such agreements.

47. The multilateral schemes under implementation by the CMEA countries represent another area of possible multilateral co-operation. At present several developing countries co-operate with some multilateral schemes of CMEA. This form of multilateral co-operation could be further promoted in the process of the implementation of the long-term joint co-operation programmes elaborated by the members of CMEA in the key areas of production. This presupposes an active interest on the part of developing countries to explore the potential possibilities of such co-operation, which could harmoniously supplement the efforts on a bilateral basis.

48. An intergovernmental group of experts was convened in October 1977 to discuss trade opportunities in favour of developing countries which may result from the implementation of such schemes by the countries members of CMEA.[14] Both developing countries and the socialist countries of Eastern Europe showed a keen interest in the matter and expressed the opinion that such opportunities do exist. However, further study of the various schemes

[13] See also document TD/242/Supp.5, reproduced in the present volume.

[14] See report of the Intergovernmental Group of Experts on Trade Opportunities Resulting from Multilateral Schemes of Countries Members of the Council for Mutual Economic Assistance (*Official Records of the Trade and Development Board, Eighteenth Session, Annexes*, agenda item 3, document TD/B/680).

with a view to determining the interest and modalities of the participation of developing countries in such schemes seems to be necessary.

49. Multilateral co-operation between developing countries and socialist countries of Eastern Europe could also be facilitated through the use of the special fund for rendering assistance to developing countries which was established within the International Investment Bank. It appears that further efforts should be undertaken by both socialist countries of Eastern Europe and developing countries to use the special fund effectively as an additional facility for financing development projects.

50. Another opportunity is provided by the CMEA Fellowship Fund, designed to assist developing countries in training their own qualified personnel at the universities of the CMEA countries. The activities of this fund were recently extended to postgraduate and specialized secondary education.

51. Initial developments have been taking place in recent years in the co-operation of regional and subregional economic organizations and groupings of developing countries with CMEA as a whole, as well as with some CMEA multilateral schemes and individual CMEA member countries. These contacts are in a preliminary stage. In a number of cases, they have been carried out with the assistance of UNCTAD.

CHAPTER III

Prospects for trade

52. On the basis of the analysis of recent trends in trade and economic relations among countries having different economic and social systems, in particular between developing countries and socialist countries of eastern Europe, short-term and long-term prospects for further development in these flows of international trade may be discerned. It appears that, in spite of the uncertainty prevailing in the world economic environment, the prospects are favourable for the further development of trade and economic co-operation among partners having different economic and social systems. It seems likely that the interplay of a number of political and economic factors active in recent years will continue to contribute to promoting these relations.

53. These flows of international trade can receive further impetus in the climate of détente which in itself is an important prerequisite for the normal development of trade, not only between partners belonging to different economic and social systems but also for international trade as a whole. Hence, the willingness of partners to develop mutually beneficial trade and economic relations, which has recently been confirmed on various occasions by heads of State and high-level officials of many countries, will influence positively the prospects for these flows of trade and economic co-operation.

54. Both developing countries and the socialist countries of Eastern Europe attach great importance to further promoting mutual relations and consider that such relations constitute one of the essential elements of the new international economic order. It is, therefore, in the context of significant structural changes emerging in the world economy that prospects for co-operation between these countries should be viewed. Both groups of countries have witnessed in recent years ever-growing involvement in the restructuring of international economic relations and have substantially increased their reliance on external factors in attaining national economic goals. The growing economic potential of the socialist countries of Eastern Europe and the developing countries taken as a whole constitutes a favourable basis for the further promotion of trade and economic co-operation between them.

55. Of particular importance for the developing countries in their efforts to establish a new international economic order is the element of stability which the socialist countries of Eastern Europe, because of their planned economic system, offer through long-term and mutually advantageous co-operation. Together with the complementarity of the economic structures of developing countries and socialist countries, this stability makes the socialist countries suitable partners for developing countries that pursue a policy of accelerated economic development and industrialization.

56. The economic development of the socialist countries of Eastern Europe increases their demand for goods originating in developing countries. In the long-term economic plans of the socialist countries, policy aims provide for an increase in both imports from and exports to developing countries, as well as for intensification of economic co-operation with the latter countries. The dynamic growth of trade between the two groups of countries in recent years has confirmed these aims with regard to both exports and imports.

57. A variety of factors which have emerged in recent years seem to confirm that the trade between these two groups of countries will substantially increase in the 1980s. The solid basis of various co-operation agreements concluded by the partners for long-term periods (mostly for five years, and in several cases for 15 years or over) appears to be one of the most important factors in this respect. These agreements provide for a comprehensive array of measures aimed at developing mutual relations. Furthermore, the socialist countries of Eastern Europe, having completed 2,830 projects in developing countries by mid 1978, were engaged in the construction of more than 1,200 projects in these countries as well as in the supply of machinery and equipment, the training of qualified cadres, etc. The bulk of these projects and co-operation deals, many of them of a large-scale and long-term character and estimated at several billion dollars, are to be implemented in the 1980s in such key branches and industrial sectors as mining, metallurgy, electricity generation, engineering, petrochemical industry, light industry, etc.

58. Experience has proved that developing countries and the socialist countries of Eastern Europe could further expand their trade by making their economic relations more comprehensive through the application of various forms of co-operation, including trade and payment arrangements, co-operation in production, technical co-operation, credit arrangements, and multilateral co-operation, in particular tripartite industrial co-operation and co-operation in third countries.

59. The potential for industrial co-operation between developing countries and socialist countries of Eastern

Europe is especially favourable. Many developing countries and their East European partners—in particular, Czechoslovakia, Hungary, Romania and Poland—enter into industrial co-operation and joint ventures as one of the dynamic means for furthering mutual trade and economic co-operation. These forms of co-operation seem not only to have a positive effect on industrial production but to exert an influence on other sectors of the economy as well. From the point of view of trade prospects, industrial co-operation arrangements are expected to contribute to the growth of exports of manufactures from developing countries to socialist countries of Eastern Europe and to other areas, to encourage a more rational use of industrial capacity, natural resources and the labour force in the developing countries, and to promote increased transfer of technology from the socialist countries of Eastern Europe to the developing countries.

60. As has already been mentioned, a co-operation mechanism between socialist countries of Eastern Europe and developing countries has been instrumental in and contributed to the intensification of mutual trade. The main thrust now should be the joint search by the partners for possibilities to utilize the potential of this mechanism. The successful development of trade and economic co-operation between the two groups of countries will depend increasingly on the efforts made by all the partners. This refers particularly to the practical implementation by those developing countries which have not yet done so of the provisions of various General Assembly and UNCTAD decisions, in particular those of the Charter of Economic Rights and Duties of States,[15] concerning the granting by the developing countries to the socialist countries of Eastern Europe of conditions no less favourable than those they grant to the developed market-economy countries.

61. The structural changes taking place in the economies of the socialist countries of Eastern Europe, such as those resulting from the ever-growing process of specialization and co-operation in production, are expected to influence favourably the future commodity structure of trade and the areas of economic co-operation with developing countries. In the 1980s there will be a growing demand for primary products and for processed and manufactured products which are either not produced in the CMEA area or are produced there is insufficient quantities. There will also be a growing demand in socialist countries for such processed goods as canned food and fruit, beverages, cereals, etc. The developing countries that will be able to meet the required standards could also count on increased purchases by the socialist countries of certain industrial manufactures and semi-manufactures, such as spare parts, accessories, intermediate goods and other components for the metal manufacturing, electrical engineering, vehicle production, textiles, footwear, building materials and chemical industries. Imports by the socialist countries of equipment and machinery, which up to now have been limited to a few of the more advanced suppliers from the developing countries, can be expected to increase, particularly in view of the drive towards industrial co-operation and specialization between the socialist countries and a growing number of developing countries. The socialist countries, as has recently been evident in some cases, are also expected to search for additional sources of supply outside the CMEA area for a number of raw materials such as tin, rubber, phosphates, some ores and minerals, as well as some commodities which up to now have been supplied primarily from within the area (oil, some non-ferrous metals, textile fibres, wood).

62. The prospects for the development of economic co-operation, including industrial co-operation, with the socialist countries can be more easily identified by the developing countries if the latter take into account the already established specialization of the socialist countries of Eastern Europe, as well as their forms and methods of co-operation. In the course of the integration process within CMEA, the socialist countries have managed to arrive at a comprehensive system of specialization in production which is also reflected in their relations with partners outside the CMEA area. Thus, to mention only some salient examples, Bulgaria has gained a tradition in setting up projects in agriculture and food processing; Czechoslovakia in some factors of the mechanical engineering and automotive industries, the textile industry, and sugar factories; the German Democratic Republic in cement factories and in some mechanical and electrical industries; Hungary in bauxite mining, pharmaceuticals and some branches of the electrical industry; Poland in coal mining, shipbuilding and some branches of electricity-generating equipment; Romania in the oil industry, fertilizers and wood industry; and the USSR in the development of hydroelectric power, mining, oil and gas industries and iron and steel industries. On this basis, individual socialist countries of Eastern Europe are specialized in certain forms and fields of co-operation which correspond most to their possibilities and experience. Thus, the USSR, Poland, the German Democratic Republic and Czechoslovakia participate actively in the implementation of a great number of economic projects in developing countries; Bulgaria in the field of infrastructure and construction of agro-industrial complexes; Hungary, Czechoslovakia and Poland in various forms of industrial co-operation and establishing joint ventures.

63. In general, the short-term and medium-term prospects for the further development of trade and economic co-operation between developing countries and socialist countries of Eastern Europe can be more easily identified as a result of a mutual search by the partners for measures enhancing the implementation of existing trade and co-operation agreements and further diversifying the geographical basis and commodity structure of mutual trade. In the long run, however, it seems feasible and desirable for the two groups of countries to arrive at establishing a stable complementarity based on a division of labour consistent with the needs of a new international economic order and the specific needs of co-operating countries. This calls for the comprehensive use of a large number of techniques and agreements. Such co-operation will probably be based on more developed forms of co-operation in planning and on appropriate long-term agreements with specific commitments by the partners.

64. Such co-operation may become desirable for both interested developing countries and socialist countries of Eastern Europe where the labour force is becoming more scarce and intensification of production is sought by means of selective development of production branches and

[15] General Assembly resolution 3281 (XXIX) of 12 December 1974.

replacing some production lines by imports from other countries. Exploitation of the existing and future opportunities seems to require not only the maintenance of the present efforts but, even more, a further increase of efforts at both the governmental and non-governmental levels in these countries.

65. Over-all long-term prospects do exist for the expansion of East-West trade. Such an evaluation is based not only on the extrapolation of recent trends but also on the economic complementarity of the two groups of countries, although the level of complementarity clearly varies from country to country. The great variety of long-term intergovernmental agreements between partners in East-West relations, which cover not only trade but also other forms of trade-creating co-operation such as industrial, technical and scientific co-operation, is a sound basis for favourable prospects in these trade and economic relations.

66. To make these prospects a reality, considerable efforts by both the developed market-economy countries and the socialist countries of Eastern Europe are needed to change the present structure of the socialist countries' exports. Though it is unlikely that the socialist countries of Eastern Europe, and particularly the USSR, will abandon in the near future their sales of raw materials and fuel to the developed market-economy countries, they cannot expect to achieve the necessary export dynamics by increasing their sales of only these commodities, in spite of the fact that the majority of the developed market-economy countries would continue to be strong purchasers of some such commodities (among others, crude oil, coal and coke, metals, ores, wood, and food products). It is the expanding internal use of primary products which will increasingly cause the export potential of these commodities to dwindle. Therefore, the rise in the general export level must come from other sectors, particularly from industrial goods and services. A strengthening of the socialist countries' policies to achieve this end can be expected with a high degree of certainty. In fact, several developed market-economy countries which have shown an interest in closer economic links with the socialist countries of Eastern Europe have already adopted policies designed to balance the flows of exports and imports between them and the latter countries.

67. Of particular importance are the compensation transactions of which active use is now being made by many partners in East-West trade. At present, contracts on a compensation basis involve delivery commitments on both sides amounting to many billions of dollars and schedules for many years ahead. Efforts on both sides are needed to ensure that compensation transactions cover not only raw materials and semi-manufactures but also manufactured goods.

CHAPTER IV

Activities of UNCTAD

68. The contribution by UNCTAD to the promotion of trade among countries having different economic and social systems should be further enhanced through the existing machinery: regular consideration by the Trade and Development Board of problems pertaining to these flows of trade, holding of bilateral and multilateral consultations between interested member countries within the existing consultative mechanism, consideration of specific issues by working groups, expert groups, seminars, etc. Thus, the sessional committee of the Trade and Development Board should continue the over-all evaluation of the current state and future prospects of trade, payments and economic co-operation among countries having different economic and social systems, in particular between developing countries and socialist countries of Eastern Europe, and should provide general guidance to member countries in this field. More specific issues could be the subject of consideration by working groups, expert groups or seminars: for example, long-term prospects in trade; co-operation in this field of planning; multilateral forms of economic co-operation, including tripartite industrial co-operation and co-operation in third countries; new forms of co-operation such as joint ventures, co-operation and specialization in production, and compensatory arrangements; trade opportunities which may result from the implementation of multilateral schemes of CMEA; and possibilities of establishing links between regional economic groupings of developing countries and countries members of CMEA and their economic organizations.

69. Continuation of the research activities and preparation of relevant in-depth studies should be further pursued by the UNCTAD secretariat in order to facilitate the consideration of the important issues in this field by intergovernmental bodies, including expert groups.

70. The mechanism of bilateral and multilateral consultations established within UNCTAD has proved to be useful. In a number of cases the consultations held between interested member countries have yielded significant results in fostering the conclusion of new intergovernmental agreements, in widening the scope of the existing relations and in promoting the implementation of various co-operation projects. UNCTAD member countries, especially the developing countries, could be further encouraged to take maximum advantage of this mechanism. To this end they should be urged to better prepare themselves for such consultations, in particular by designating, as provided for in relevant UNCTAD decisions, competent experts to participate therein. In cases where experts of developing countries, in particular from the least developed countries, are unable to participate in such consultations owing to financial difficulties, UNDP financing (in particular through national indicative planning figures) may be provided. Upon request by interested countries, the UNCTAD secretariat should ensure the necessary technical and substantive support for these consultations, both within and outside the framework of the sessions of the Trade and Development Board. In order to improve further this mechanism, it could be recommended that bilateral and multilateral consultations be held periodically outside the sessions of the Board for discussing specific practical problems relating to bilateral and multilateral relations of interest to individual partner countries, as well as to groups of countries. The interested member countries should inform the secretariat well in advance of the specific issue they would like to discuss with their counterparts from other groups.

71. In spite of the intensification of trade and economic relations between developing countries and socialist

countries of Eastern Europe during this decade, various trade opportunities have not been fully used by these two groups of countries, one of the reasons being that they were not aware of the existing possibilities. Various decisions have been adopted within UNCTAD with a view to bridging this gap—among others, Conference resolutions 53 (III) and 95 (IV) and the agreed conclusions adopted by the Trade and Development Board at its ninth, tenth and thirteenth sessions.

72. Pursuant to these decisions the secretariat has undertaken technical assistance activities in close co-operation with UNDP, the United Nations regional commissions and the International Trade Centre UNCTAD/GATT. The implementation of the interregional project "Training for the development of trade between socialist countries of Eastern Europe and developing countries"[16] permitted officials from 63 developing countries to participate in training events. The participants obtained a better knowledge of trade policies and practices, trade agreements, monetary and credit regulations in the socialist countries, economic and technical co-operation, industrial co-operation, joint ventures, market research practices and procedures, instruments of foreign trade, etc. The project also allowed the participants to discuss trade relations of their respective countries with the socialist countries, to establish direct contacts and to hold bilateral consultations with the authorities of the socialist countries on specific questions of mutual interest. The experience gained by the participants, in particular the better knowledge of opportunities for trade between the two groups of countries, will serve the promotion and intensification of their trade relations. The UNCTAD secretariat, through the implementation of the project, accumulated valuable experience and documentation which can be utilized in its future activities.

73. In addition, several individual technical assistance projects, which were financed by UNDP and implemented by UNCTAD, provided assistance to individual countries (Burma, Guinea-Bissau, Panama) to study the practices, modalities and functioning of the socialist countries' foreign trade, as well as a study tour by representatives of central banks of West African countries and the West African Clearing House to study the multilateral system of payments in the socialist countries. Contacts were established with the assistance of UNCTAD between the Andean Group and the Union of Banana Exporting Countries, on the one side, and the CMEA countries, on the other. A research project was implemented by ECLA and UNCTAD on economic relations between Latin American countries and members of CMEA in the effort to expand and diversify these relations.[17]

74. In conformity with Conference resolution 95 (IV) and in collaboration with UNDP, the United Nations regional commissions and the International Trade Centre UNCTAD/GATT, UNCTAD has elaborated a comprehensive programme for the period 1979-1981 consisting of training, dissemination of information and advisory services on an interregional, regional and national basis. This programme was prepared after detailed consultations with the regional commissions, many developing countries and socialist countries of Eastern Europe by a preparatory assistance mission which assessed the needs of the developing countries in training, advisory services and other technical assistance activities in this field.

75. Training will be the major component of the programme, consisting of three interregional workshops and four regional seminars. Parallel to training, there will be a dissemination of information, *inter alia,* on trade policies, modalities of trade and economic co-operation between socialist countries and developing countries, commodity composition of imports and exports, measures taken by the socialist countries of Eastern Europe to promote trade with developing countries, as well as the publication of brochures and manuals on trade with the socialist countries of Eastern Europe.

76. This programme could not be expected to satisfy all the developing countries' needs in this field. Accordingly, the technical assistance activities could be further intensified to cover such specific issues as socialist countries' preferential schemes, trade facilitation, etc. More emphasis should be placed on the advisory services, with a view to responding to developing countries' needs for information concerning the main characteristics of the economic system of socialist countries of Eastern Europe, their trade policies, the conclusion of trade and economic co-operation agreements, the planning of foreign trade, trade procedure, credit and payments arrangements, industrial co-operation, commercial representation, etc.

77. The technical assistance could be an additional means of improving the consultative machinery established within UNCTAD in the field of trade among countries having different economic and social systems, especially by enabling least developed countries to participate in these consultations.

78. There has been continuous co-operation between UNCTAD and the United Nations regional commissions in the field of trade among countries having different economic and social systems. Various proposals concerning economic relations between socialist countries of Eastern Europe and developing countries are under discussion between UNCTAD and the regional commissions in order to co-ordinate the activities envisaged, to implement jointly various research and technical assistance projects and to share the experience accumulated by UNCTAD and the regional commissions in this field. The UNCTAD secretariat has also established a permanent working contact with the Economic Commission for Europe and co-operates with it on issues pertaining to East-West trade. The UNCTAD secretariat will intensify its efforts to co-ordinate its activities with those of the regional commissions, having in mind that the complementarity of activities should correspond to the interests of the UNCTAD member countries.

CHAPTER V

Conclusions

79. The economic potential and existing trade opportunities of countries having different economic and social

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[16] UNDP project No. INT/74/010/B/01/40.

[17] See "Trade and economic relations between Latin American countries and countries members of the Council for Mutual Economic Assistance: study by the UNCTAD secretariat" (TD/243/Supp.2).

systems are not fully utilized and further action aimed at exploiting these opportunities is needed.

80. The UNCTAD member countries could elaborate and adopt appropriate bilateral and multilateral measures conducive to the further promotion of East-West trade and of trade between developing countries and socialist countries of Eastern Europe on a long-term and stable basis and to the expansion of the geographical basis and the commodity structure of this trade. Of particular importance to this effect are the measures aimed at the strengthening of the legal and institutional basis of trade and economic co-operation between partners having different economic and social systems through the further promotion of the practice of concluding and implementing long-term trade and economic co-operation agreements, especially between developing countries and socialist countries of Eastern Europe, including agreements extending for a period of 10 to 15 years. Such agreements should cover broader areas of mutual relations and provide for the wider use of different forms and modalities of co-operation.

81. Partner countries, especially the developing countries and the socialist countries of Eastern Europe, should jointly seek ways and means to strengthen further the co-operation mechanism and to adapt it to changing conditions and the economic needs of the countries involved, in particular through more active use of already established channels of co-operation, the creation of new mixed intergovernmental commissions for trade and economic co-operation and the extension of the functions of those already existing, and broader involvement of business circles within this co-operation.

82. Action to expand East-West trade and economic relations should be directed towards diversifying the commodity structure of the westward flow through increased exports from the socialist countries of Eastern Europe of manufactured and other products, thus contributing to the achievement of equilibrium in trade exchanges and diminishing the existing trade deficit of the socialist countries with the developed market-economy countries. This could also contribute to the elimination of trade barriers, especially those of a protectionist and discriminatory nature. UNCTAD should also be interested in the positive effect which the expansion and intensification of East-West trade links could have on a world-wide scale and, in particular, on the trade of developing countries. The participants in East-West trade, while expanding their trade and economic relations, should take into account the interests of developing countries.

83. Further guidance could be given for the improvement of developing countries' export structure through, *inter alia,* the promotion of industrial co-operation agreements between developing countries and socialist countries of Eastern Europe, and further improvement of the existing GSP schemes of the socialist countries of Eastern Europe. Measures designed to balance, whenever appropriate, exports and imports between developing countries and socialist countries of Eastern Europe could also be envisaged. At the same time, such measures should not compromise the further increase of economic and technical co-operation—in particular, deliveries of complete plants and equipment on a long-term credit basis.

84. The members of UNCTAD could be encouraged to adopt measures aimed at implementing the recommendations of the Intergovernmental Group of Experts to Study a Multilateral System of Payments between Socialist Countries of Eastern Europe and Developing Countries (November-December 1977),[18] in particular with regard to introducing more elements of multilateralization and flexibility in mutual settlements. The UNCTAD secretariat could be requested to review periodically the issues connected with the multilateralization of payments relations.

85. Efforts by the socialist countries of Eastern Europe and by the developing countries with a view to intensifying their over-all economic and technical co-operation should be continued. In particular, in the matter of repayment by developing countries of credits granted to them by socialist countries of Eastern Europe, the practice of repayment through deliveries of goods—both traditional ones and manufactures, including products made at enterprises built with the assistance of the socialist countries—should be expanded. Existing and widely developed forms of such co-operation could also be supplemented by the conclusion of compensatory agreements. Further action for the promotion of co-operation between the socialist countries of Eastern Europe and interested developing countries in the comprehensive solution of major economic tasks of the latter countries, in particular by the establishment of production complexes in these countries, could also be recommended.

86. Recently there has been an increase in the practice of establishing joint ventures both in East-West trade and in trade between developing countries and socialist countries of Eastern Europe, as well as in co-operation on third markets. The expansion of this practice could be recommended.

87. Co-operation between developing countries and socialist countries of Eastern Europe in the field of planning could be encouraged with a view to ensuring a higher degree of stability in mutual trade flows. The advice of qualified experts may be sought as to the ways of promoting this kind of co-operation between the two groups of countries.

88. Various forms of multilateral co-operation involving partners from developing countries, socialist countries of Eastern Europe and developed market-economy countries are of interest to the members of UNCTAD. One such area, which has been developing steadily in recent years and creating additional trade opportunities for all participating countries, in particular for developing countries, is tripartite co-operation. Countries from the three regional groups could facilitate the further development of tripartite co-operation. UNCTAD should continue reviewing the developments in this area with a view to further elaborating appropriate recommendations.

89. Concerning relations with CMEA, co-operation links of a different nature between individual non-member countries and CMEA as a whole, and between individual non-member countries and multilateral schemes of the CMEA member countries, more active utilization of the Special Fund established within the International Investment Bank for financing programmes of economic and technical assistance to developing countries, utilization of

[18] See foot-note 12.

the transferable rouble in payments relations with trade partners outside the CMEA region, etc., seem to offer other promising areas for furthering trade and economic co-operation among countries having different economic and social systems.

90. The emerging and still rather rare practice of establishing contacts between regional and subregional economic organizations of developing countries (integration schemes, producers' associations, multilateral marketing companies, multilateral payments arrangements, etc.) with the CMEA countries could also be the subject of further study and experiment.

91. At its fifth session, the Conference should give additional impetus to the fuller utilization by member countries of the possibilities offered by the machinery of UNCTAD, in particular by envisaging in-depth discussion, in working and expert groups, seminars, etc., of various specific issues pertaining to trade among countries having different economic and social systems.

92. The UNCTAD consultative machinery in the field of trade with the socialist countries of Eastern Europe could be further strengthened in line with the suggestions made in this policy paper.

93. UNCTAD technical assistance activities for developing countries in the field of trade with the socialist countries of Eastern Europe, as described in the preceding paragraphs of this report, should be placed on a permanent footing. Active support and participation in these activities by the member countries should be sought.

94. Fruitful co-operation and co-ordination of UNCTAD activities with those of the United Nations regional commissions should be continued and strengthened.

95. In spite of the high dynamism of trade and economic co-operation among countries having different economic and social systems, in particular between developing countries and socialist countries of Eastern Europe, its present level is lower than is desirable or possible. UNCTAD could contribute to the process of increasing and intensifying these relations on a stable and balanced basis. In view of this, all the parties concerned should be encouraged to adopt and apply further measures to promote and expand mutual trade and deepen economic co-operation, as well as to contribute to the establishment of a climate conducive to the smooth development of mutual relations.

DOCUMENT TD/243/SUPP.5*

Tripartite industrial co-operation and co-operation in third countries

Study by the UNCTAD secretariat

[*Original: English*]
[*20 April 1979*]

CONTENTS

Introduction

1. One of the characteristic features of the development of trade and economic relations among countries having different economic and social systems in recent years is the introduction into these relations of various elements of multilateralism. Various new forms of co-operation among these countries have been emerging, with the participation of more than two partners from two and even three groups of countries, i.e. from the developing countries, the socialist countries of Eastern Europe and the developed market-economy countries.

2. Co-operation between two partners from different countries, on the territory of a third country, is often referred to as co-operation in third markets. There could be numerous varieties of such co-operation. This study concentrates on co-operation between the socialist countries of Eastern Europe and the developed market-economy countries in developing countries, and between developing countries and socialist countries of Eastern Europe in third, mainly developing, countries.

3. The first kind of co-operation dealt with in this study is often referred to as tripartite industrial co-operation,[1] although the area covered by it is not limited to co-operation in the field of industry but may include other branches of the economy as well.

4. The significance of this co-operation has been noted in a number of resolutions adopted by the General Assembly and the United Nations Conference on Trade and Development. The General Assembly, underlined that the efforts undertaken by UNCTAD on tripartite co-operation could lead to constructive proposals for the industrialization of developing countries.[2] The UNCTAD secretariat has been dealing on a regular basis with the issues pertaining to tripartite co-operation, with a view to fostering this type of economic relations among countries having different economic and social systems.

5. In 1975, under the auspices of UNCTAD, a seminar was held on industrial specialization through various forms of multilateral co-operation, during which various aspects of tripartite industrial co-operation were considered. The studies presented to the seminar and its report suggested that further analytical work should be carried out on the goals and purposes of tripartite co-operation. It was also noted that there was a need to identify the problems faced by countries participating in this co-operation, to study possible pragmatic solutions and to review the outcome of tripartite co-operation and trade and economic conditions relevant to such co-operation.[3]

6. At the fourth session, the United Nations Conference on Trade and Development paid considerable attention to the issues of tripartite co-operation. It invited developing countries, socialist countries of Eastern Europe and developed market-economy countries to expand multilateral forms of economic co-operation and to continue to study the possibilities of, and thereafter to implement, tripartite

* Incorporating document TD/243/Supp.5/Corr.1.

[1] The UNCTAD secretariat has evolved a definition, broad in scope, which defines this type of arrangement as co-operation at the enterprise/organization level between the industrial sectors of developing countries, socialist countries and developed market-economy countries.

[2] General Assembly resolution 3362 (S-VII) of 16 September 1975, sect. IV, para. 5.

[3] See "Tripartite industrial co-operation: study by the UNCTAD secretariat" (TAD/SEM.1/2), and "Report of the seminar on industrial specialization through various forms of multilateral co-operation" (TD/B/599 and Corr.1).

economic and industrial co-operation in the fields, *inter alia*, of agricultural production, research and infrastructure, with the participation of developing countries, socialist countries of Eastern Europe and developed market-economy countries, paying particular attention to specific problems of developing countries.[4]

7. The Conference also recommended that the socialist countries of Eastern Europe take steps to provide adequate opportunity to developing countries to participate in the realization of common projects in third countries.[5]

8. The present paper has been prepared by the secretariat with a view to showing the recent trends in tripartite co-operation and its impact on the trade of the developing countries, and to indicate some problems the partners face in furthering this co-operation.

9. Co-operation between developing countries and socialist countries of Eastern Europe in third markets is also briefly analysed, though the experience gained so far in this field is rather limited.

10. In preparing this study the secretariat was assisted by material prepared at its request by Mr. I. Ivanov (USSR) and Mr. F. Levcik (Austria), as well as by findings of its research work carried out in this field.

CHAPTER I

Tripartite co-operation—general attitude

11. Trade and economic relations among countries having different economic and social systems, and particularly between the developing countries and socialist countries of Eastern Europe, have increased substantially in recent years.[6] The bulk of the trade and economic co-operation in these flows of international trade has been conducted through various forms of bilateral co-operation among individual countries from the three groups of countries (i.e. including developed market-economy countries). At the same time, with the emergence of new forms of economic relations among these countries and, in particular, multilateral forms—tripartite co-operation being one of them—the countries from the three groups, when entering into economic relations with one another, are able to select appropriate complementary forms of co-operation that meet their specific needs and requirements.

12. The UNCTAD secretariat has prepared a number of studies on this subject in which some main aspects of the approach of different groups of countries towards this co-operation have been considered.[7]

13. The main attraction of tripartite industrial co-operation for different groups of countries is its ability to ensure more rational and effective use of resources, including new technology, and the ensuing acceleration of international industrial specialization. In addition to this, different groups of countries, while entering tripartite co-operation agreements, pursue their specific targets which have been outlined in the above-mentioned UNCTAD material. In short, the developing countries could use this kind of co-operation as an additional instrument for facilitating the implementation of economic development policy aimed at the establishment and expansion of the productive sector and at the increase of their export potential, particularly in the field of non-traditional items, including manufactures and semi-manufactures.

14. It may also be mentioned that tripartite co-operation objectively contributes to the reinforcement of the State sector of the developing countries, particularly when the subject of this co-operation is the establishment of big industrial enterprises in a State or State-controlled branch of the economy.

15. As for the socialist countries of Eastern Europe, their attitude towards tripartite co-operation is, in principle, determined by their general view on international economic relations as a means of assuring higher efficiency of production and sustained economic growth. This policy, which is envisaged in the plans of the socialist countries of Eastern Europe for 1976-1980, provides for more active involvement of these countries in the international division of labour and encourages the search for new forms of co-operation, including tripartite co-operation, with countries having different economic and social systems. The long-term character of tripartite co-operation agreements makes this kind of co-operation particularly attractive for the socialist countries, whose economies are being developed on a planned basis, since it assures the stability in the flows of trade resulting from the mutual commitments of the partners. This makes it possible for the socialist countries to incorporate these trade flows in their current and long-term economic plans.

16. To the private firms and State-owned enterprises of the developed market-economy countries, tripartite industrial co-operation provides an opportunity to improve their sales prospects in the markets of developing countries, minimizing production costs and making sure of raw material supplies on favourable terms.[8]

17. Tripartite industrial co-operation is especially attractive for medium-sized and small firms which, playing the role of subcontractor to the socialist countries' foreign trade organizations, obtain a good chance of expanding their activities on new markets in the developing countries with smaller expenditures than are usually required for tapping new markets.

18. It may be stated with some justification that tripartite co-operation is an area where the experience gained in East-West trade could be put to effective use. The previous Conference resolutions on trade among countries having different economic and social systems underlined the close interrelation of all flows of this sector of international trade and, *inter alia*, pointed out that the expansion of trade and economic relations between East and West would affect positively the expansion of international trade as a whole, including the trade of developing

[4] Conference resolution 95 (IV), sect. I, para. 3.

[5] *Ibid.*, sect. III, para. 5 (*g*) (i).

[6] See document TD/243, reproduced in the present volume.

[7] See TD/B/599 and Corr.1; TAD/SEM.1/2; and "Motivations for tripartite industrial co-operation: the viewpoint of industry and foreign trade in socialist countries" (TAD/SEM.1/18).

[8] K. Bolz, "The prospects of tripartite cooperation", *Inter Economics* (Hamburg), vol. 11, November 1976, pp. 308-309.

countries, provided that the necessary constructive measures to promote trade and economic relations with developing countries were undertaken by those two groups of countries and that the interests of the developing countries were duly safeguarded.[9]

19. The growing tendency towards multilateralization of trade among countries having different economic and social systems and, in particular, the emergence and development of tripartite co-operation, has justified this thesis and indicates that the development of East-West economic relations could be beneficial for the developing countries. The Final Act of the Conference on Security and Co-operation in Europe, signed at Helsinki on 1 August 1975, stipulates that recommendations for the promotion of economic relations of the participating countries shall take into consideration the interests of the developing countries, with special regard for the interests of the least developed countries. Positive effects for the developing countries may result from an evaluation of past experiences made in East-West co-operation, suggesting ways of effectively shaping the developing countries' commercial and economic relations with the countries in East and West. A further possibility of extending the advantages of East-West co-operation to the developing countries consists of promoting forms of co-operation that bring into association, besides developed market-economy countries and socialist countries, developing countries as well.

20. When speaking about the influence of East-West economic relations on the development of tripartite co-operation, particular reference should be made to the role played by intergovernmental agreements on various aspects of trade and economic co-operation and the long-term co-operation programmes concluded by the socialist countries with their partners from developed market-economy countries.

21. Many of these agreements provide for the possibility of co-operation in the markets of third countries, which creates the legal prerequisites for the partners from respective socialist countries and developed market-economy countries to enter into tripartite co-operation arrangements. Thus, the understanding to co-operate with third countries is fixed in the agreements and long-term co-operation programmes concluded by the USSR with Austria, Finland, France, the Federal Republic of Germany, the United Kingdom, the United States of America, etc. For example, the Soviet-Austrian programme for deepening of economic, technological and industrial co-operation for a 10-year period indicated about 10 branches where the organizations or companies of the two countries could co-operate on a tripartite co-operation basis, including power-engineering, oil-refining, chemicals, mining, ferrous metallurgy, agriculture and other areas. The intergovernmental co-operation agreements signed by Austria with Czechoslovakia, Poland and Romania not only provide for co-operation on third markets but even envisage the creation for this purpose of special institutional machinery, i.e. working groups.

22. The issues pertaining to co-operation in third markets, including tripartite industrial co-operation, are regularly discussed at intergovernmental meetings, particularly in the framework of mixed intergovernmental commissions.

23. In recent years it has become a well-established practice to include provisions concerning co-operation in third countries into agreements and contracts signed by the partners in East-West trade at enterprise/foreign trade organization level. Thus, the general agreement for economic, industrial and commercial co-operation signed in 1978 between a group of Bulgarian manufacturing and foreign trade organizations and the Belgian syndicate Sibetra envisages not only the building of industrial installations in Bulgaria but joint surveys for the delivery of such installations, special-purpose machines, complete production lines and certain goods to third countries. Joint industrial co-operation in third countries is envisaged in the co-operation agreement in mechanical engineering, chemistry, consumer goods and foodstuffs between Czechoslovakia and Japan and in many other agreements and contracts of a similar type. In some cases such agreements bring together more than two partners from among the socialist countries of Eastern Europe and/or the developed market-economy countries. For example, in 1978 a technical-scientific agreement was signed between the London group Dunlop G.B., Chemolimpex and Taurus of Hungary and Pirelli of Milan, Italy, under which a joint activity in third markets was envisaged.

24. The whole set of the aforementioned intergovernmental agreements and long-term co-operation programmes, agreements and contracts at enterprise/foreign trade organization level as well as the functioning of the existing co-operation mechanism in East-West trade, lay the foundation and create the necessary preconditions for the conclusion of tripartite industrial co-operation contracts in the developing countries. In other words, these examples provide additional support for the view that the development of East-West relations in the field of industrial co-operation heralds a promising outcome for the developing countries.

25. A no less significant role in the development of tripartite co-operation is played by intergovernmental agreements concluded between the developing countries and the socialist countries of Eastern Europe, particularly long-term agreements on economic co-operation. Experience shows that tripartite industrial co-operation is practised more actively by those developing countries which have already established diversified trade and economic links with the socialist countries and are basing their further development on a set of relevant agreements.

26. Parallel to the policy of an active participation of the socialist countries of Eastern Europe in the international division of labour, some economic and management reforms have been introduced into the economies of these countries which, *inter alia*, are expected to facilitate the development of tripartite co-operation. Besides this, in the socialist countries of Eastern Europe some major projects are now being implemented with a view to setting up additional production capacities which are to be supplied with imported goods on a continuous basis. The operation of these capacities might often necessitate co-operation with partners from the other two groups of countries. One example is the development of the USSR aluminium industry. A large alumina plant in that country is to be supplied with bauxite in the framework of the

[9] Conference resolution 53 (III), preamble.

Soviet-Guinean project, with the participation of a French component, under which the USSR has rendered assistance to Guinea for the exploitation of its bauxite resources, to be repaid by bauxite deliveries to the USSR, where they will be processed at the plants for which the equipment has been supplied by France on a compensation basis. Under the USSR-Iran-Western European "switch deal", a part of the USSR's demand is met by deliveries of gas from Iran and at the same time the USSR sells the equivalent quantity of gas to some countries of Western Europe, including France and the Federal Republic of Germany.

27. Apart from the above-mentioned steps taken by the socialist countries of Eastern Europe, there have also been some institutional and legal innovations within these countries which are directly or indirectly beneficial to tripartite co-operation. In some of these countries, particularly in Bulgaria, Hungary, Poland and others, some measures have recently been undertaken aimed at increasing the role of industrial units in carrying out external economic relations, in negotiating future contracts and contracts in operation with the foreign partners, including tripartite co-operation projects. In some socialist countries, new foreign trade organizations have been set up especially for participation in industrial co-operation with other countries, including tripartite arrangements. For example, the Hungarian organization Intercooperation plays an important role not only in the co-ordination of bilateral arrangements but also in the initiation and implementation of tripartite co-operation projects.

CHAPTER II

Tripartite co-operation—scope and area coverage

28. Tripartite co-operation is a relatively new form of economic relations among countries having different economic and social systems, emerging in the middle of the 1960s. By the middle of 1975, about 140 agreements on tripartite industrial co-operation were registered by the UNCTAD secretariat, involving 33 developing countries, seven socialist countries of Eastern Europe and 13 developed market-economy countries. Algeria, Egypt, India, Iran, Iraq and Yugoslavia were the leading partners among the developing countries in tripartite industrial co-operation, followed by Nigeria and Morocco. Among the socialist countries of Eastern Europe, Hungary and Poland appeared to be the most actively involved; these two countries accounted for more than half of the total involvement of the socialist countries, followed by Czechoslovakia, Romania and the USSR. Western Europe occupied a leading position in tripartite industrial co-operation among the developed market-economy countries, representing seven eighths of total participation. Enterprises from France and the Federal Republic of Germany were reported to be particularly active in this field, followed by Austrian and Italian enterprises.[10]

29. Since 1975 the general trend as concerns the participation of individual countries in tripartite co-operation has been maintained and although the exact data concerning the participation of individual countries from the three groups are not available, the available data indicate that there is a progressive trend towards an increase of tripartite industrial co-operation projects. Thus, in 1975 Austria participated in 20 tripartite industrial co-operation projects, whereas in 1978 it participated in 58. The respective figures for the USSR were 21 and more than 60.

30. The approximate over-all value of tripartite co-operation arrangements can be judged from the fact that the number of third country East-West projects is of the order of 6 to 7 per cent of all East-West deals.[11] In some cases, the partners from these two groups are more actively participating in tripartite industrial co-operation than in economic relations on a bilateral basis. Thus, the German Democratic Republic has 11 tripartite industrial co-operation projects with Austria and only a few bilateral co-operation agreements.

31. As concerns the geographical distribution of tripartite co-operation projects, there is a marked trend towards extension to many newcomers. Thus, whereas in 1975 only 33 participants from among the developing countries were parties to tripartite co-operation, by 1978 the USSR alone had tripartite co-operation contracts involving 46 developing countries. The newcomers to tripartite industrial co-operation are also to be found among the Western countries, including the Netherlands and Norway.

32. As to the duration of tripartite co-operation contracts, in 1975 it was noted that in the majority of cases they covered a period of two to four years. The latest data indicate that the average duration of tripartite industrial co-operation contracts has increased to five years and even more, which reveals the tendency towards introducing greater stability into this form of economic relations among countries having different economic and social systems. Furthermore, although tripartite co-operation by partners from East and West was previously a marginal and *ad hoc* business, it has become a way to implement the industrial project in a long-term span, with more permanent ties between these partners, including, for example, their several successive biddings in the developing countries. Thus, one of the foreign trade organizations of the USSR and a company from the Federal Republic of Germany have reached an agreement to co-operate in the installation of air-separating equipment for a number of steel mills in Latin America.

33. The area coverage of tripartite co-operation projects shows that they could prove to be effective in various sectors of the developing countries' economy, including production in industrial branches and agriculture, infrastructure, transport, trade, etc. It is manifest that the majority of tripartite co-operation projects are found in the field of manufacturing, accounting for about four fifths of the total number, followed by the power industry, mining and transport. Tripartite co-operation projects in agriculture are so far not too numerous, which evidently could be attributed to the fact that this sector of the economy of the developing countries, in comparison with others, does not need as much equipment, the deliveries of which often constitute the essence of tripartite co-operation. As for

[10] See TAD/SEM.1/2.

[11] *Eastwest Markets*, Chase World Information Corp., New York, 22 August 1977, p. 11.

research and development, the tripartite co-operation in this area is still in its initial stage, though there is evidence of its intensification in some cases.

34. It seems that tripartite co-operation in the field of manufacturing is of the greatest interest to the developing countries, in view of their efforts to foster the industrialization process. The secretariat study mentioned above shows that the greatest number of tripartite industrial co-operation projects in manufacturing fall within the iron and steel industry, which facilitates the development of many other branches, including construction, the engineering industry, mining, etc. The latest data show that this trend continues. Thus, of more than 60 tripartite co-operation projects in which the USSR participates, about one quarter is concentrated in the iron and steel industry. Poland is also very active in the construction of metallurgy capacities in developing countries, which are partially implemented through tripartite co-operation. For example, Budimix (Poland) and the firm EVT (Federal Republic of Germany) are taking part in the establishment of a great metallurgical complex at El-Hadjar in Algeria. The same Polish organization is engaged, in co-operation with the French firm Creusot-Loire, in the construction of metallurgical works in Iraq.

35. Many large-scale projects in this field have been or are being implemented through bilateral co-operation between the socialist countries of Eastern Europe and developing countries, with the presence of Western components in the construction of some of these projects. This was, the case, for example, in the establishment of ferrous metallurgy capacities in India, Pakistan and some other developing countries. Thus, it seems that a new phenomenon is emerging in economic co-operation between countries having different economic and social systems, under which large projects in the developing countries are being installed by joint efforts of the developing countries and socialist countries with the participation of the developed market-economy countries in the realization of some specific links of these projects—which provides the most effective utilization of all available opportunities for the fulfilment of the said projects. Since, under such co-operation, the main elements of technical assistance are provided to the developing countries by the socialist countries of Eastern Europe, and a much smaller share falls within the sphere of the developed market-economy countries, it would be more appropriate to refer to this co-operation as bilateral economic co-operation between the socialist and developing countries with Western components, and to distinguish it from full-scale tripartite co-operation, which implies that the partners from the three groups participate in all stages of the implementation of the project in question.

36. On such a basis, many co-operation projects have been or are being implemented in the developing countries in the fields of mining and petroleum and gas extraction. It is noteworthy that some of these projects are not limited to a single operation but encompass the whole process from prospecting to extraction and processing of raw materials and fuels in the developing countries. One of the most successful of these projects is the construction of the North Rumeila oil extraction capacities in Iraq, in which several socialist countries of Eastern Europe took part, some of the equipment used being delivered by developed market-economy countries.

37. On a tripartite co-operation basis some other projects in the fields of mining and oil and gas extraction have been or are being implemented in such countries as the People's Republic of the Congo and Mauritania. One of the largest projects in this area has been initiated by Switzerland and Poland, which have agreed to develop a coal-mining and energy complex in Peru, the cost of which is estimated to be between $300 million and $400 million. It is important to note that the same two partners are planning to undertake similar co-operation in other developing countries.

38. The area where the tripartite industrial co-operation projects are particularly numerous is the power-generating industry, which, together with the production of metals and raw materials, forms the basis for the development of all economic activities. Among the socialist countries, the most active participants in tripartite co-operation in this field are Hungary and the USSR. In recent years power stations have been or are being constructed through tripartite co-operation and bilateral co-operation with Western components, in such countries as India, Iran, the Libyan Arab Jamahiriya, Pakistan, Turkey and Yugoslavia.

39. In view of their requirements for food and consumer goods, the developing countries encourage tripartite co-operation in the light industries and food processing industries. For example, in 1978 Krupp of Essen (Federal Republic of Germany) and the foreign trade enterprise Unitechna (German Democratic Republic) agreed to co-operate in the construction of a cotton-spinning mill in Ethiopia. The development of these labour-intensive industries while contributing to meeting the needs of the developing countries, helps to solve the problem of employment in those countries.

40. The latest experience in tripartite co-operation shows that it could be developed not only in so-called basic industries but also in new and more sophisticated branches of the economy which determine the technological level of the industrial development of each country. Tripartite co-operation projects, although not too numerous, are now being initiated in the chemical industry, fertilizer production, mechanical engineering, etc. For example, Buttner-Shilde-Hass AG of Krefeld (Federal Republic of Germany) is a subcontractor for the delivery of equipment for a mineral fertilizer plant being built by Romania in the Syrian Arab Republic. The German Democratic Republic and Austria are co-operating in building an integrated pulp and paper mill in the United Republic of Cameroon. Ikarus (Hungary) and Scania (Sweden) are co-operating in the production of city or intercity buses in Iraq, etc. Thus, tripartite co-operation is at present successfully carried out in many important spheres of the developing countries' economies, enhancing the complex and comprehensive development of these countries in line with their economic development targets.

41. As has been mentioned, Conference resolution 95 (IV) underlined the importance of the further development of tripartite co-operation in agriculture and infrastructure. Although tripartite industrial co-operation does not so far seem to have become common in agriculture, there are some cases of successful implementation of tripartite co-operation in this area. For example, Hungarian foreign trade organizations, in co-operation with a partner from the Federal Republic of Germany, set up a joint venture which

has established itself in the markets of a number of developing countries, particularly in the Middle East, with poultry breeding farms. Another Hungarian organization concluded a preliminary contract with an Italian company for the sale of complete systems to develop the pasture economy in Somalia.

42. As for the infrastructure sector, particularly fruitful results have been achieved through tripartite co-operation in the construction of transport communications. The construction of long pipelines for the transportation of petroleum in Nigeria, with the participation of the USSR and the United Kingdom, and the construction of a section of the gas pipeline in Iran, with the participation of France and Poland, may be cited as examples.

43. The question of the partners' contribution to the fulfilment of tripartite co-operation projects is of particular interest. The contribution of partners from the socialist countries of Eastern Europe and the developed market-economy countries is usually connected with the role of a general contractor or subcontractor, supplier of the equipment and technology, manager of the project, etc. Regarding the role played in tripartite co-operation projects by the developing countries, which in the majority of cases are the host countries, there appears to be a trend towards greater participation of these countries in the implementation of the projects. They are beginning to take a more active part in the construction work, in that they supply the labour force and raw materials required for the project, as well as some semi-manufactured and manufactured items, including machinery and equipment.

44. It is also worth noting that, in quantitative terms, the role of a participant from a developing country in tripartite co-operation can be rather high—up to 40 per cent of the total value of the project. Taking into account the large number and scale of the existing tripartite co-operation projects, one comes to the conclusion that this co-operation gives a good impetus to business activity in developing countries, even at the stage of implementing the projects in question, contributing, among other things, to fuller employment. Furthermore, the implementation of tripartite co-operation projects is inevitably accompanied in most cases by training of local personnel. This factor, as well as the rise of the total industrial capacity of the developing countries, makes it possible for them to increase their share in the subsequent tripartite co-operation projects being implemented in the same countries, as has already taken place in cases of bilateral co-operation. The greater involvement of the developing countries may take the form of more extensive processing of local raw materials on the spot, services of local research, engineering, consulting, marketing and other kinds of activity. This, for example, was the case in the establishment of several steel mills in India with the assistance of the USSR as a general contractor and with the presence of a Western component. Thus, the "domestic content" in the construction of Bhilai-I was 12.2 per cent, Bhilai-II 23 per cent, Bokaro-I 44 per cent, Bokaro-II about 80 per cent.

45. One of the important results of tripartite co-operation, particularly in the industrial sectors of the developing countries, is its positive influence on the rise of the technological level of some branches of the economy of these countries. The transfer of technology to the developing countries resulting from tripartite co-operation is carried out through the delivery of machinery and equipment, by the sale of licences, and by the transfer of technical, marketing and managerial know-how. It seems that one of the major beneficiaries of this transfer of technology is the State sector of the developing countries, especially in cases where the role of general contractor is played by one of the socialist countries of Eastern Europe, which willingly accept co-operation with the State sector of the developing country. For example, almost the entire development of heavy industries, oil prospecting and refinery construction in the Indian public sector had been built up with technology from the socialist countries of Eastern Europe.[12]

46. The developing countries could also benefit from tripartite co-operation with the socialist countries as general contractors, owing to the fact that as a rule the socialist countries of Eastern Europe supply technology to the developing countries on rather advantageous conditions. Thus, the USSR does not usually charge the developing countries for new technical solutions and innovations, for the technical documents necessary for organizing production of goods, or for transfer in connexion with building new industrial and other projects with the assistance of the USSR.[13] The socialist countries of Eastern Europe have now become suppliers to the developing countries—including under tripartite co-operation arrangements—of modern technology which previously could only be obtained in the West. Thus, Hungarian enterprises occupy a prominent position in the world technology markets for the pharmaceutical industry, the German Democratic Republic for the chemical industry, Romania for oil refineries, etc., making use of the Western companies in a number of cases a subsuppliers of the needed technology.

47. Being a relatively new kind of co-operation in the framework of trade and economic relations among countries having different economic and social systems, tripartite co-operation presents many problems which are quite understandable in view of the need to satisfy the interests of partners with sometimes different approaches to this co-operation—differences which result in particular from the specific political and social conditions existing in their countries. Originating from East-West trade, tripartite co-operation is vulnerable to the political climate existing in East-West relations and benefits from the process of détente. Similarly, the creation of more favourable conditions in East-West trade would also have a positive effect on tripartite co-operation.

48. In addition, tripartite co-operation is faced with a number of technical and organizational problems which the participating countries could consider, particularly problems connected with financing, ownership, control, influence of the State, settlement of disputes, protection of patents, etc.

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[12] See "The transfer of technology to developing countries in the framework of tripartite industrial co-operation: discussion paper by Dr. Padma Desai, consultant" (TAD/SEM.1/5).

[13] See "The experience of socialist countries of Eastern Europe in the transfer of technology to developing countries: study prepared by Dr. I. Sronek at the request of the UNCTAD secretariat" (TD/B/C.6/25), para. 143.

CHAPTER III

Tripartite co-operation and its impact on the trade of the developing countries

49. Tripartite economic co-operation, although occupying a relatively marginal share in the economic relations of the developing countries, could play, as has been shown, a positive role in enhancing the economic and, in particular, the industrial growth of the developing countries. At the same time, this co-operation involves an exchange of goods between the participating countries and is therefore an additional lever for promoting trade among countries having different economic and social systems. With the intensification of this co-operation, the trade-creating effect is even expected to augment.

50. The positive influence of tripartite co-operation on trade of the developing countries, particularly on trade with the socialist countries of Eastern Europe, may be considered from several viewpoints. First of all the very implementation of tripartite co-operation generates additional trade flows to the developing countries, mainly in the form of capital goods. Once established through tripartite co-operation, the new productive capacities of the developing countries, particularly those constructed in export-oriented branches (mining, oil and gas extraction, metallurgy, etc.), become the suppliers of goods both to the domestic market and, in numerous cases, to the markets of other countries. It seems that, in quantitative terms, the effect of tripartite co-operation in the trade promotion activity of the developing countries is felt first of all in the commodities sector, which provides for many developing countries the bulk of their export revenue.

51. Among the examples of co-operation in raw material production, in which there will be a Western component, is the complex project connected with the development of the phosphate deposits at Meskala, Morocco, with the foreign trade organizations of the USSR acting as general contractors and some orders being placed in the developed market-economy countries, notably the United States of America. Under the agreement signed between Morocco and the USSR, the former will be given a long-term and guaranteed opportunity for the export of phosphate rock. The value of the goods to be exported from Morocco during the whole period of the agreement will amount to several billion dollars.

52. A certain contribution to trade in commodities, in the framework of trade among countries having different economic and social systems, is made by the recently emerging "switch deals", which are concentrated mainly in the oil and gas trade. An example is the multilateral gas agreement between the USSR, Czechoslovakia, Iran and a Western European utilities consortium. It reflects in a spectacular way the interests and motivations of the parties to such trade operations. In the beginning of the 1970s the Western utility corporations examined possibilities of importing natural gas from countries outside Europe; among the projects examined, that involving Iran was considered one of the more promising. The first project considered, which was based on the proposed construction of a 4,000-kilometre pipeline from the Iranian fields of Kangan to Western Europe, could not be realized on account of the high cost and other difficulties. A solution was found by interposing the USSR, as there was a serviceable pipeline in operation between Iran and the USSR. Under a general agreement signed in 1975 between Iran, the USSR, Czechoslovakia, Austria, France, the Federal Republic of Germany and Italy, Iranian natural gas will be delivered to the USSR and the equivalent quantity of gas will be delivered from the USSR to Czechoslovakia and Western Europe. This is one of the biggest business deals ever made, and by far the most important agreement ever concluded involving countries from all three groups. The agreement will run for 23 years, until the year 2003. The volume of gas to be delivered to Western Europe under this contract will come to 242 billion cubic metres with a total value estimated in constant prices (basis: 1978) of $25 billion to $27 billion.

53. The recently concluded four-way petroleum agreement involving Cuba, Spain, the USSR and Venezuela is another example of such switch transactions. It stipulates that the USSR will supply Spain with oil previously destined for Cuba, whereas Venezuela will supply Cuba with the equivalent quantity of oil, which normally would have been shipped to Spain.

54. Although the operations cited above cannot be considered as tripartite co-operation projects from the point of view of the production factor, they should not be ignored in the context of the growing economic relations involving three groups of countries.

55. Experience shows that tripartite co-operation in the field of commodities production is not limited to prospecting and extraction but involves, to a growing degree, local processing with the possible export of a part of such production. The greatest part of tripartite co-operation contracts in this field are to be found in the oil-refinery industry (in Mauritania with the participation of Austria and the German Democratic Republic, in the Syrian Arab Republic with the participation of Austria and Czechoslovakia, etc.) in fertilizer production with the use of local materials, and in other areas. In many cases, the implementation of these projects is designed to supply additional resources for export, which helps to improve the commodity structure of the developing countries' exports and at the same time to improve their balance-of-payments position.

56. It seems that the aim of diversification of exports from the developing countries is best served, in the case of tripartite co-operation, in the field of manufacturing, which is where the bulk of such co-operation has been or is being implemented. Contributing as it does to the industrialization of developing countries, this co-operation is instrumental in increasing the developing countries' exports of manufactured and semi-manufactured goods and facilitates the reduction of their dependence on the production and export of commodities only.

57. The long-term commitments under the tripartite co-operation contracts allow developing countries to find additional markets for some of the resultant products in both socialist and developed market-economy countries and enlarge the capacity of the world market to accommodate these flows of manufactures from developing countries to their partner countries. It should be noted that the product of enterprises established under tripartite co-operation is also in some cases exported to other developing countries. For example, the bus assembly plant in Iraq, set up and

operating with the participation of Hungary and Sweden, exports its production to some Middle East countries.

58. Of particular interest to the developing countries in this context are those tripartite co-operation contracts which stipulate the repayment of assistance received by these countries from their partners in the resultant products. Experience reveals that, as a rule, when this kind of financial settlement in the tripartite co-operation is practised, it is a partner from among the socialist countries of Eastern Europe, acting as a general contractor, which is willing to accept such a mode of payment in relation to a wide range of products produced in host developing countries—including the production of such branches as machine-building, production of vehicles and parts thereof, chemicals and pharmaceuticals—whereas the Western partners accept pay-back arrangements, mainly in primary commodities or mining products.[14] For the developing countries, the repayment in kind gives an opportunity to use locally produced goods instead of hard currency to pay their commitments under tripartite co-operation contracts and at the same time procures a stable and accessible market for their products. As for the partners from the socialist countries of Eastern Europe and the developed market-economy countries, this mode of payment could assure a stable import market of needed goods.

59. In certain cases, tripartite co-operation arrangements stipulate that the partner from a developing country can use the internationally acknowledged trade marks of the assisting developed countries, which facilitates the sale on overseas markets of goods produced under such arrangements. Moreover, there are cases on record of partners from socialist countries of Eastern Europe undertaking an obligation not to conclude similar contracts with enterprises located in a specific geographical region, thus securing for a given developing country's enterprise exclusive export rights over the co-operation product in an even larger area. It seems that such a combination of exclusive rights has the effect of favouring effective international specialization within a more or less extensive geographical region.[15]

60. The world markets are particularly attentive to the marketing of goods produced jointly under tripartite co-operation. There are seemingly fewer problems in selling the production of such branches as mining than there are in other branches; indeed, some big tripartite co-operation projects in this area are partly "export guaranteed" in the sense that they provide for repayment in kind. Marketing is more difficult, however, in the case of manufactures and semi-manufactures, although they are also imported by the socialist and developed market-economy countries, particularly by the former in the amounts agreed upon as pay-backs. Examples are steel and aluminium, petrochemicals, and textiles exported from such countries as Egypt, India, Iran and Iraq. The Western partners in tripartite co-operation may be compensated either in cash or in kind, and in the latter case they may either utilize these products themselves or resell them.

[14] C. T. Saunders, ed., *East-West Cooperation in Business: Inter-firm Studies*, The Vienna Institute for Comparative Economic Studies, Workshop on East-West European Economic Interaction (Tbilisi, USSR, 1976), Workshop Papers, vol. 2 (Vienna, Springer-Verlag, 1977), p. 99.

[15] See TAD/SEM.1/2, para. 103.

61. Sometimes the partners try to set up joint marketing facilities, particularly by combining their sales and service network in domestic and third markets or by joint bidding. However, it seems that additional efforts should be made by partners to provide for better marketing facilities for products produced under tripartite co-operation.

62. When considering the trade flows resulting from the implementation of tripartite co-operation projects, particular attention should be paid to the question of the trade policies—and specifically to the import régimes—which the various countries apply to their bilateral trade, since the trade flows in question are subject to the same rules as bilateral trade. Therefore, the creation of more favourable conditions in all flows of world trade, including East-West trade, could be beneficial for tripartite co-operation and the trade resulting from it.

CHAPTER IV

Co-operation between developing countries and socialist countries of Eastern Europe in third countries

63. Among the various forms of multilateral economic co-operation which have recently been gaining ground in relations between the developing countries and the socialist countries of Eastern Europe, one of the relatively new ones is represented by co-operation of countries from these two groups in the markets of third countries.

64. With the intensified industrialization and improved export performance of developing countries, their enterprises become better equipped for more effective partnerships in various forms of multilateral co-operation, not only within their own territory, but also abroad, in particular in other developing countries. In seeking to collaborate with them, the foreign trade organizations of the socialist countries usually attempt to facilitate reducing production and construction costs and to assist in the training of local experts; in addition, they seek to share the expertise they possess in the development process, including tendering, marketing and servicing on the markets of developing countries.

65. The developing countries are likely to acquire, through this co-operation, an additional opportunity to diversify their export performance on new markets, especially for manufactured items produced by recently established industrial enterprises.

66. Although this kind of co-operation is still in the initial stage, the available experience would appear to indicate prospects for the participation of organizations from the socialist countries of Eastern Europe with enterprises from developing countries in some projects in third countries.

67. Among the developing countries, the most frequent participants in co-operation in third markets are those with a relatively high industrial level, which enables them to offer their industrial goods, including machinery and equipment, on competitive terms (for example, India and Yugoslavia). Practically all the socialist countries of Eastern Europe practice this form of co-operation with the devel-

oping countries, the USSR being the most active in this area.

68. In some cases, possibilities for co-operation in third markets emerge from bilateral co-operation between developing countries and socialist countries. For example, the Indian enterprises act as subcontractors for the foreign trade organizations of the USSR, delivering machinery and equipment for steel mills in Cuba and Turkey, several industrial projects in East Africa and a steel mill in Nigeria. Several other projects, with the USSR as a main contractor, providing for such collaboration are under consideration in Iran, Iraq, the Libyan Arab Jamahiriya and other countries. Negotiations are also under way for co-operation in third markets between Poland and Kuwait, between Poland and the Libyan Arab Jamahiriya, and between Bulgaria and Iran. Such a contribution by India became possible as a result of the construction, with Soviet assistance, of a heavy equipment plant in Ranchi, and projects with the participation of the USSR in third countries reportedly account for about 17 per cent of the orders of this plant. This plant also supplies Bulgaria with heavy equipment for the construction by Bulgaria and the USSR of a steel mill. This case may be regarded as an example of India's participation in co-operation projects undertaken by CMEA member countries.

69. It is worth noting that, in absolute terms, these deliveries can be fairly substantial, making a sound contribution to the improvement of the balance-of-payments position of a developing country. Thus, to return to the example of the Ranchi plant, Indian deliveries for the steel plants in Cuba, Turkey and Bulgaria alone amount to 300 million rupees.

70. Co-operation in third markets is practised not only in the area of heavy engineering, but also in other spheres of industrial production of the developing countries. Thus, a Soviet foreign trade organization set up an assembly line to produce watches jointly with a local company in Panama, partners from Hong Kong acting as subsupplier of certain parts of the final product, which is to be marketed throughout the world.

71. Some experience is gained in co-operation between partners from the two groups of countries in joint marketing of items produced in developing countries under co-operation arrangements with the socialist countries of Eastern Europe. For example, Hungary and Poland have developed, with some West African countries, joint enterprises which are supposed to export their products to third countries. Generally speaking, it seems that the area of joint marketing is one of the most promising among various forms of co-operation in third markets and could be regarded as a prelude to more sophisticated forms of such co-operation.

72. One innovation in co-operation in third markets is the effort being initiated by some partners on the joint designing of engineering products for subsequent sale to the markets of third countries. Specifically such co-operation is under way between the enterprises of India and of the USSR, which are starting joint designing of high-power turbines with a view to exporting them to some developing countries and to socialist countries.

73. There are cases in economic relations among socialist countries and developing countries where the latter act as subcontractors in co-operation deals, involving also partners from the developed market-economy countries, the result being a symbiosis between tripartite co-operation and co-operation in third markets. Among the examples of such co-operation is the construction of an integrated cellulose and paper factory in the United Republic of Cameroon by joint efforts of Vöest-Alpine (Austria) and organizations from the German Democratic Republic, Poland and Yugoslavia. Yugoslav enterprises are also parties to some other tripartite co-operation projects.

74. As in the case of tripartite co-operation, present or potential partners in co-operation in third markets are taking steps to institutionalize this co-operation, utilizing for this purpose the existing co-operation mechanism. Many intergovernmental agreements concluded recently between developing countries and socialist countries contain provisions for co-operation in third markets. Such provisions are contained in co-operation agreements signed by Czechoslovakia with India and Iraq, in agreements between India and Bulgaria, Poland, Romania and the USSR, etc. Co-operation in third markets is a newcomer to the agenda of mixed intergovernmental commissions. Such action enables the countries from the two groups to bring more elements of stability into this new but seemingly promising type of co-operation, as is the case, for example, with the long-term programme of economic, trade and scientific and technical co-operation for 10-15 years signed by India and the USSR in March 1979, which provides, among other things, for joint co-operation in the design and construction of industrial projects in third countries.

75. Since it is only now emerging, co-operation in third markets understandably faces many problems and it seems quite appropriate for the interested countries from all groups to give due consideration to this form of co-operation, with a view to further encouraging it as one of the additional instruments promoting the growth of the economies and the foreign trade of the developing countries.

CHAPTER V

Conclusions

76. Tripartite co-operation involving partners from developing countries, socialist countries of Eastern Europe and developed market-economy countries has emerged in the last decade and is increasingly supplementing bilateral trade and economic relations between countries having different economic and social systems, playing a certain positive role in promoting trade relations among these three groups of countries.

77. A number of measures are now being taken by the countries from the three groups which may be expected to contribute to the promotion of tripartite co-operation. Of particular importance in this context are the provisions contained in agreements at intergovernmental and enterprise level concluded recently between participants in trade among countries having different economic and social systems, which provide for the development of co-operation in third countries, including tripartite co-operation. The institutional co-operation mechanism

serving this trade has also begun to be used with a view to expanding tripartite co-operation.

78. At various UNCTAD forums, the representatives of these three groups of countries, while expressing their support for tripartite co-operation, noted that there were still considerable unused opportunities for further intensifying this form of international co-operation, including co-operation in such areas as industrial production, mining, energy production, agriculture, research, infrastructure and some others.

79. In fact, the problems which the participants in tripartite co-operation are facing suggest that all groups of countries should take additional steps which could have a positive effect on this co-operation. Such measures could originate in the framework of bilateral trade and economic relations between countries having different economic and social systems. In this respect, the general improvement—in the spirit of the Final Act of the Conference on Security and Co-operation in Europe—in relations between the socialist countries of Eastern Europe and the developed market-economy countries, in addition to being beneficial for East-West trade itself, could give an impetus to tripartite co-operation.

80. At the same time, some more practical measures could be taken by different groups of countries to foster tripartite co-operation. Interested countries might wish to agree on special measures designed to facilitate deliveries under tripartite co-operation schemes and, for example, to introduce lower tariff rates for manufactures and semi-manufactures circulating as a result of intra-tripartite co-operation exchange. Additional steps might be taken with a view to further improving the financial, marketing and legal arrangements relating to tripartite co-operation. The expansion in the network of long-term agreements on economic, trade, scientific and technological co-operation and the relevant long-term programmes concluded between the socialist countries of Eastern Europe and the developing countries, as well as between developed market-economy countries and socialist countries, could be instrumental in providing greater possibilities for tripartite co-operation. The existing co-operation mechanism in trade among countries having different economic and social systems, in particular the mixed commissions, could also be used more actively in the regular consideration of questions relating to tripartite co-operation.

81. UNCTAD could play a positive role in efforts to develop tripartite co-operation. The UNCTAD secretariat could continue to study experience in tripartite co-operation and disseminate information pertaining to the development of actual co-operation as well as future possibilities. To this end, a special meeting of governmental experts might be organized in the framework of UNCTAD with a view to considering the main aspects of tripartite co-operation, including legal and financial problems, as well as the impact of this kind of co-operation on the growth of trade among countries having different economic and social systems, paying particular attention to the trade of developing countries.

82. The development of co-operation between the developing countries and socialist countries of Eastern Europe in markets of third countries should also be encouraged. Countries that are interested in the development and expansion of this form of co-operation could use, for this purpose, the mechanism existing in their bilateral trade and economic relations, and in particular could provide for the possibilities of such co-operation in agreements on trade and economic relations concluded between them. The UNCTAD secretariat should continue to study this form of co-operation.

AGENDA ITEM 18*

DOCUMENT TD/244**

Economic co-operation among developing countries. Priority areas for action—issues and approaches

Report by the UNCTAD secretariat

[*Original: English*]
[*11 April 1979*]

CONTENTS

ANNEXES

CHAPTER I

Economic co-operation among developing countries and the new international economic order

1. Recent developments on the international economic scene have served to underline many of the serious structural imbalances currently facing the world economy.[1] The list of long-standing issues has been dramatically lengthened in the period since the fourth session of the United Nations Conference on Trade and Development, and some ominous new developments, including the failure of major economic powers to come to grips with chronic international payments imbalances, persistently high levels of inflation and unemployment, and the new market rigidities manifested in rising protectionism, have emerged with serious implications which do not augur well for a balanced and prosperous world economy in the coming decade. It is thus becoming increasingly clear that, if present trends continue, future prospects for increased access to the markets of developed economies for many products of export interest to developing countries are very bleak.

* For the agenda, see vol. I, part three, para. 6.

** Incorporating document TD/244/Corr.2.

[1] For a discussion of these structural imbalances and of their implications for world trade and development, see the report by the Secretary-General of UNCTAD to the Conference at its fifth session (document TD/221), reproduced in the present volume.

2. The serious repercussions on the economies of the developing countries of the present malaise of the international economy and of the inability of the existing international economic order to provide adequate and equitable support to the international development process highlights the need for a new international economic order. It is now recognized that to achieve this will require significant structural changes on a broad front, involving not merely the refurbishing of the old framework of co-operation among countries but also a new set of relationships based on mutual interests and mutual respect and a fairer sharing of power and decision-making among States. In particular, the existing pattern of dominance of the developed countries in international economic decision-making, and the relatively weak bargaining position of developing countries, will need to be adjusted in the light of the demands of the new international economic order if the interest of the developing countries and the world economy as a whole are to be properly served.[2]

3. These demands for a restructuring of the world economy will involve new sets of relationships both between developed and developing countries and among the developing countries themselves. It is in this context that a strategy for collective self-reliance assumes particular importance as an integral part of a restructured global economic system and as an essential element of an over-all strategy for global economic development. As a consequence, economic co-operation among developing countries, as a key element of a strategy for collective self-reliance, becomes an essential component and instrument for the necessary structural changes required for a balanced and equitable process of world economic development.

4. It should be stressed that a strategy of collective self-reliance and of closer economic co-operation among developing countries does not imply a move towards autarky. Indeed, it does not in any way reduce the need for structural changes in the pattern of interdependent relationship between developed and developing countries, since such interdependence will continue as an essential element. Nothwithstanding the possibilities for greatly increased trade among themselves, developing countries will continue to need to have access to growing markets in the developed countries, and the trend towards protectionist policies in these countries must be reversed and the corresponding structural changes in the economies of developed countries carried out. Similarly, monetary reform, changes in the trading rules and the harnessing of the activities of transnational corporations remain important areas for structural reform. One of the objectives of collective self-reliance is precisely to promote wider structural changes in the existing mechanisms and the institutional framework needed to make effective a more equitable, efficient and prosperous new international economic order through an increase in the economic strength and bargaining power of developing countries.

5. Economic co-operation among developing countries as a key element of collective self-reliance has an essential role to play in a number of respects. It will lead to a fuller and more effective exploitation of existing and potential complementarities in the economies of developing countries, while at the same time contributing to a more balanced and interdependent relationship between developed and developing countries. Also, by embodying the potential for joint action, it will strengthen the capacity of developing countries to negotiate with developed countries and reduce the one-sided nature of their dependence on them. By intensifying trade and economic linkages among developing countries as part of the structural changes needed for a more rational international division of labour, it will lead to a more efficient use of world resources.

6. Collective self-reliance and economic co-operation among developing countries have now been fully endorsed by the international community as an essential element for a new international economic order. While the support of the international community will be necessary to facilitate the effective realization of this important element of the new international economic order, it is recognized that collective self-reliance and economic co-operation among developing countries are matters which chiefly concern the developing countries themselves and which have to be formulated and implemented by them at the subregional, regional and interregional levels.

7. The concept of economic co-operation among developing countries is not new; indeed, over the past 20 years a significant number of steps have been taken to intensify such co-operation, largely at the regional and subregional levels and largely within the framework of economic integration and other regional co-operation schemes.[3] In more recent years, however, the concept has achieved heightened importance with a number of declarations by the developing countries of explicit goals and commitments for the intensification and broadening of co-operation links among them.

8. The support required from the international community will involve both the facilitation of appropriate structural changes and institutional reform, as well as financial and technical assistance to support concrete measures that have been formulated and are being implemented by developing countries as part of their efforts for collective self-reliance and economic co-operation.

CHAPTER II

The framework and elements of economic co-operation among developing countries

A. A global approach

9. The creation of a system of collective self-reliance through intensified economic co-operation among developing countries calls for concerted action in a number of interrelated areas, all of which need to be nurtured, developed and finally brought to fruition. Concerted action is needed so that full advantage can be taken of the interrelationships between, and the reciprocally supporting characteristics of, the different activities. It is the essence of economic co-operation among developing countries that it

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[2] For further discussion of this aspect, stressing in particular the need for adjustments in the structural relations between North and South, see document TD/221.

[3] For a list of regional and subregional economic co-operation and integration arrangements of developing countries, see annex I.

provides the framework for this integrative and mutually self-supporting approach.

10. This approach implies that, while detailed consideration needs to be given to the different activities and elements which comprise the framework for economic co-operation among developing countries, the interrelationships between them must be viewed as part of a comprehensive strategy. Thus a global system of trade preferences cannot be conceived of independently of the other components of the UNCTAD programme of work on economic co-operation among developing countries. No major shift towards trade among developing countries will take place unless specific measures are taken to promote and increase such trade. These measures may relate to transportation cost barriers, the inadequacy of financial institutions or the lack of an adequate production and marketing base. A global system of trade preferences then becomes a necessary but not a sufficient measure. Its implementation would greatly facilitate the establishment of multinational marketing and production enterprises. It would also lead to greater co-operation between State trading organizations. Conversely, the establishment of these enterprises would facilitate the implementation and operation of a global system of trade preferences. Furthermore, monetary and financial co-operation cannot promoted independently of the other activities mentioned above. Payments arrangements are essential to finance regional and subregional trade expansion and facilitate the expansion of intraregional trade through the provision of credit which alleviates balance-of-payments problems. The availability of finance for export credits and guarantees facilitates the expansion of trade in capital goods among developing countries. This, together with adequate development finance for multinational projects in agriculture, industry and marketing, becomes an essential element in an integrated mechanism for the promotion of economic co-operation among developing countries. The existence of an appropriate insurance mechanism facilitates multinational production and marketing. The point to be stressed is that all these activities become mutually self-reinforcing, making it necessary to formulate a comprehensive and coherent strategy for economic co-operation among developing countries with full cognizance of the links between the separate activities which will have an impact on economic relations among developing countries and those between them and developed countries.

11. A positive feature of this comprehensive and integrative approach is that it facilitates the overcoming of potential difficulties connected with the distribution of gains, a difficulty on which many otherwise promising schemes have often floundered. The simultaneous pursuit of a large number of co-operation activities within a comprehensive framework will help to ensure the widest possible distribution of benefits, since possible unevenness in distribution from particular activities can be counterbalanced by the pattern of distribution from others, with the result that a rough balance of equity can be attained without too much difficulty.

12. Implementation of effective action in this framework will require a major effort by developing countries to rationalize and expand trade among themselves, to be supported by greater harmonization and co-operation in their monetary and financial relations. This in turn will no doubt require both a reorientation of policies and the reform of existing institutions dealing with trade and monetary and financial issues. The need for new institutional machinery to facilitate and promote these activities will therefore need to be given serious consideration.

13. The activities of UNCTAD relating to economic co-operation among developing countries and the studies prepared on the subject[4] have been undertaken within the context of this comprehensive approach, taking account of the essential interrelationships between different components. The programme of work aims at the creation of a framework which can identify specific policy issues for negotiation, with the eventual goal of implementation, and assist in the promotion of activities through the development of an appropriate structure for co-operation among developing countries on a global scale. Within this framework, attention needs to be given to new priority issues related to recent developments on the international economic scene, as well as to new issues which may emerge as the interrelationships between the different activities are explored. Thus, newly emerging issues will need to be anticipated and the mandate of UNCTAD in this field expanded with sufficient flexibility to ensure effective support.

14. However, supportive action by UNCTAD, the United Nations system and the international community generally cannot be a substitute for the sovereign initiative of developing countries in establishing among themselves meaningful bonds of economic co-operation. In fact, national and collective self-reliance can only emerge as the end result of a multiplicity of linkages forged by developing countries among themselves, in pursuance of their own common objectives, and incorporated into national policies as a major contribution towards the creation of a new international economic order. All forces—public and private—in developing countries need to be harnessed to the task. Governments should take the necessary steps to create the proper environment and stimulus to co-operation, and should adopt such direct additional measures as are within their sphere of action and will promote this process. At the same time, where appropriate, the private sector should be motivated to participate in economic co-operation among developing countries in a multiplicity of areas which offer themselves to these initiatives. It is essential that the concepts and broad principles of such co-operation should be increasingly translated into tangible, practical results at all levels of endeavour, to ensure the full credibility of this approach and intensify its contribution to development. Actual implementation becomes, then, the essential yardstick to measure progress on such co-operation.

B. The programme on economic co-operation among developing countries

15. The programme of Measures for Economic Co-operation among Developing Countries, adopted at the Conference of the Group of 77 held in Mexico City in 1976,[5] constitutes a comprehensive set of measures and

[4] For a list of the studies, see annex II.

[5] See "Report of the Conference on Economic Co-operation among Developing Countries, held at the Conference Centre, Ministry of Foreign Affairs, Mexico City, 13-22 September 1976" (77/COOP/CMEX/12) (distributed under cover of document TD/B/628 and Add.1).

objectives designed to strengthen economic co-operation among developing countries and encompasses both the intensification of existing activities and the initiation of new programmes of co-operation. In the Mexico City programme, both types of activities are described in terms of certain desirable general objectives. Specific details and modalities for their implementation were not provided, since it was envisaged that preparatory work was necessary prior to entering the implementation stage.

16. The United Nations system has been engaged in a process of carrying out in-depth analysis of relevant issues and formulating appropriate mechanisms and techniques designed to assist developing countries in the attainment of their objectives on economic co-operation among themselves. Information on the activities of the United Nations system in this regard appears in the report of the Administrative Committee on Co-ordination on the question of economic co-operation among developing countries[6] and in the report of the Secretary-General of the United Nations to the General Assembly at its thirty-third session.[7] These reports point out areas for co-ordination and co-operation.

17. UNCTAD, which was called upon at the Mexico City Conference on Economic Co-operation among Developing Countries to make a substantial contribution to the implementation of its objectives, has undertaken a number of studies[8] and other support action in pursuance of certain priority areas of the Mexico City programme, in accordance with instructions received from its governing bodies. The Committee on Economic Co-operation among Developing Countries, which was set up by Trade and Development Board decision 142 (XVI), after reviewing the Mexico City programme, called upon the Secretary-General of UNCTAD, in its resolution 1 (I),[9] to give special priority, in establishing the UNCTAD work programme on economic co-operation among developing countries, to:

(*a*) The initiation of studies relating to:

(i) A global scheme of trade preferences among developing countries;

(ii) Co-operation among State trading organizations;

(iii) The establishment of multinational marketing enterprises;

(*b*) The intensification of on-going work and activities relating to:

(i) The strengthening of subregional, regional and interregional economic co-operation and integration;

(ii) The establishment of subregional, regional and interregional export credit and export credit guarantee schemes;

(iii) Co-operation in the transfer and development of technology;

(iv) The transit and transportation problems of developing land-locked and island countries;

(v) Regional and subregional insurance and reinsurance schemes among developing countries;

(vi) The promotion and facilitation of capital flows among developing countries;

(vii) The establishment of multinational production enterprises.

18. In addition, paragraph 6 of that resolution invited the Secretary-General of UNCTAD to collaborate with the relevant international institutions in support of the intensification of studies on the strengthening and linking up of clearing and payments arrangements.[10]

19. UNCTAD studies and activities in the field of economic co-operation among developing countries have been based on the work programme as set out in that resolution, and these activities have provided the basis of the formulation of the policy issues on the various elements of such co-operation presented below. In carrying out these activities, the UNCTAD secretariat has established links for co-operation with the relevant bodies of the United Nations system, including the regional commissions, UNIDO, FAO and GATT.

C. Trade expansion and the global system of trade preferences

The potential for trade expansion

20. The studies and research undertaken by the UNCTAD secretariat pursuant to resolution 1 (I) of the Committee on Economic Co-operation among Developing Countries[11] show that there exists a considerable potential for the establishment of a global preferential trading arrangement comprising all developing countries. Such a scheme, if appropriately designed and conceived as a part of an over-all programme on economic co-operation, and if constructed in a gradual and progressive manner over time, could make a substantive contribution to the objective of the Mexico City programme of promoting the development of the national production and mutual trade of developing countries.

21. Newly emerging complementarities among developing countries have significantly increased the potential for trade expansion among them. Already during the 1970s trade among developing countries increased much faster than their trade with developed countries; trade in petroleum and in manufactures was the main motor of this development.[12] Several developing countries have rapidly developed new productive activities, technologies and skills and have substantially diversified their export patterns.

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[6] E/AC.51/90/Add.1 (Part I) and Corr.1 and E/AC.51/90/Add.1 (Part II) and Corr.1 and 2.

[7] A/33/367.

[8] For a list of the studies, see annex II.

[9] See *Official Records of the Trade and Development Board, Seventeenth Session, Supplement No. 2* (TD/B/652), annex I. This resolution was subsequently approved by the Trade and Development Board at the first part of its seventeenth session.

[10] For a more detailed account of the work programme of UNCTAD in this area, see the report of the Committee on Economic Co-operation among Developing Countries on its second session (*Official Records of the Trade and Development Board, Tenth Special Session, Supplement No. 2* (TD/B/732)), paras. 34-36.

[11] For a list of these studies, see annex II.

[12] For further details on trends in this trade, see document TD/244/Supp.1, reproduced in the present volume.

Recent rapid growth of industrial capacity and of production in intermediate and capital goods industries will soon be reflected in higher export capacity and in an intensified search for new markets for products in heavy demand by developing countries for sustaining their economic development. At the same time, substantial new demand for industrial raw materials is likely to be included by intensified industrial growth of developing countries.

22. In spite of its recent rapid growth, trade among developing countries still forms only a small share of total world trade and falls far short of its potential. This is a reflection of the obstacles and barriers that trade among developing countries has had to face. Thus, transport facilities will need to be improved, transport costs substantially reduced and mutual knowledge and information among developing countries built up to permit the full exploitation of existing trade potentials. A large variety of tariffs, non-tariff barriers and exchange restrictions, widely used by developing countries as an incentive for their industrial and agricultural development for balance-of-payments purposes and for other reasons, also constitute a restrictive barrier on trade with other developing countries.

23. The experience of subregional and regional integration groupings among developing countries indicates that preferential techniques can, in suitable circumstances, constitute an effective instrument for stimulating intragroup trade and may provide additional thrust to the development of new productive activities. The lessons of the liberalization process within preference and integration schemes, including those of an interregional scope such as the Protocol relating to Trade Negotiations among Developing Countries,[13] provide valuable guidance for the conception of a global system of trade preferences, as most of the problems that may be encountered, as well as the principles, measures and negotiating technique under consideration for a global system, have been dealt with by them in the past. Examples include the importance of appropriate principles and measures to take account of differences in the level of economic and industrial development among member countries; the limited success of approaches relying on tariff preferences alone, and the need to apply a range of other preferential and non-preferential techniques to take full account of such factors as the heterogenous nature of the economic trade structures of participating countries and the wide disparities in trading régimes; the need for more direct trade measures and contract techniques which have recently been gaining in importance in bilateral and multilateral arrangements; the relatively greater dynamics of linear vis-à-vis item-by-item approaches; the successful application of sectoral approaches; and the need for the adoption of special support programmes in favour of relatively less advanced member countries extending beyond trade preferences into production and finance.[14]

Principal features and components of a global system

24. In the light of the above considerations, and on the basis of the studies undertaken by the UNCTAD secretariat on this subject, the main objectives and principles of a global system of trade preferences should include those in the following paragraphs.

25. The establishment of a margin of preference with respect to tariff and non-tariff barriers should be combined with trade co-operation measures aimed directly at overcoming the structural and other barriers hampering trade among developing countries.

26. As an instrument for accelerating growth and thereby over-all demand and trade, the global system could be considered not as an alternative to prevailing international trading relations but rather as a means of promoting a more equitable and efficient world trading environment.

27. The global system should be based on the general principle of mutuality of advantages among countries with similar levels of development while taking account of different levels of industrial advancement, trading systems and trade patterns.

28. In principle, measures adopted under the global system should be applied on a multilateral basis to all developing countries. While this should be the long-term objective, any developing country should be free to join only those components of the system in which it has a direct interest while taking into account the requirement for mutual advantages within the scheme as a whole.

29. The principles applicable under the system should be consistent with the continuing need for developing countries to pursue mutual trade co-operation on a bilateral basis or within existing or newly created subregional, regional and interregional integration or economic co-operation schemes. Such schemes could in turn make a major contribution to the establishment of a global system, in a mutually reinforcing manner.

30. The following components should be considered for eventual inclusion in a global system of trade preferences:

(*a*) A general declaration by developing countries that they will avoid, to the extent possible, future increases of tariff and other restrictions on imports originating in other developing countries, and in particular that they will avoid any new measure that would preclude such access. Differential provisions would apply to least developed countries;

(*b*) Adoption of an over-all indicative target for trade with other developing countries as a general guideline for action under the various subsystems of the global system. Such a target could be designed in terms of a general commitment to expand mutual trade at a faster rate than total trade;

(*c*) A moderate linear reduction of tariffs could be envisaged for a range of dynamic intermediate and capital goods where substantial scope exists for increased production in developing countries. This could be supplemented by equivalent arrangements with respect to consumer goods and agricultural products already produced in a large number of developing countries, and these two could be linked to ensure reciprocity of benefits. The rates of reduction under the global system would often need to be less deep than those applicable within preference schemes of subregional and regional integration groupings;

(*d*) The establishment of a multilateral framework for negotiations on non-tariff barriers and direct trade measures

[13] Protocol drawn up at Geneva on 8 December 1971. See GATT, *Basis Instruments and Selected Documents, Eighteenth Supplement* (Sales No. GATT/1972-1), p. 11.

[14] For an extensive discussion of this experience, see document TD/244/Supp.1, reproduced in the present volume.

among interested countries applying these instruments in their foreign trade. These would include: negotiations on quantitative restrictions, import licensing and exchange restrictions on a product-by-product basis; negotiations on long-term contracts and comparable direct trade measures (such as public purchasing commitments, arrangements between State trading organizations, compensatory deals);[15] any negotiations or multilateral commitments regarding government procurement involving a limited margin of price reference over third country suppliers;

(*e*) Adoption of a medium-term programme for sectoral consultations and negotiations with respect to selected industrial and agricultural products. Initial objectives of consultations on mutual market and supply opportunities could progressively develop into short-term deficit and surplus agreements applying, as appropriate, suitable trade co-operation instruments. In the longer run, trade objectives may be combined with production development objectives within complementarity or sectoral allocation agreements;

(*f*) Development-oriented rules of origin based on the principle of cumulative treatment among all developing countries. Specific provisions with respect to transnational corporations should ensure that benefits of preferences accrue to their national economies;

(*g*) Within all these areas of a global system of preferences, special, differential and non-reciprocal measures should be adopted in favour of the least developed countries which may have difficulty in taking advantage of new market opportunities offered by the system. In addition to special advantages with respect to tariffs, non-tariff barriers and direct trade measures, special action programmes and mechanisms will be required to provide balancing benefits in favour of least developed countries. Within such action programmes, measures need to be designed to promote an increase in the industrial capacity and technological capabilities of these countries so as to enable them to draw effective benefits from the system. Such measures would require supportive action within the programme on economic co-operation among developing countries, as a whole, with respect to such areas as industrial co-operation schemes, the establishment of bilateral or multilateral production and marketing enterprises, the creation of an investment fund, the provision of special and concessional finance and payments facilities, and the development of export promotion and trade co-operation programmes. Least developed countries would in turn not be required to accord reciprocity, though they would be expected to make contributions within the scope of their possibilities.

31. The global system of trade preferences should contain linkage measures to support other areas of economic co-operation among developing countries, in particular industrial and agricultural production, and will in turn require support through appropriate payments and trade financing arrangements; the reinforcement of developing countries' production, technology and marketing capacities; the setting up of a trade information system, and intensified efforts by developing countries to conclude bilateral trade and economic co-operation agreements as well as to strengthen their subregional and regional co-operation schemes.

32. The implementation of the scheme outlined above needs to be considered as an empirical process stretching over a period of time. The global system should be implemented stage by stage, giving participating countries the opportunity to take necessary corrective action as the scheme evolves and to counteract difficulties arising during its implementation. In view of the complex issues involved, initial commitments should be limited in depth and their implementation should leave room for future adjustments and flexibility.

33. In formulating and implementing measures under the global system, developing countries should bear in mind the need to ensure consistency between such measures and their existing international commitments. Also, they would need to bear in mind the operational guidelines for implementing the system when entering into new international commitments.

34. The experience in developing countries in general and in Latin America in particular shows the importance of timely access to trade information for the expansion of trade relations among developing countries. High priority should be given to the development of national and multinational trade information services, as one of the initial steps in the process of establishing a global system of trade preferences. For this purpose the establishment of an interregional trade information system should be considered. The interregional system would require the establishment of a data bank on trade and trade barriers of developing countries for priority sectors of mutual trade interest as well as the creation of a mechanism for the exchange of information regarding supply, markets, transport, credit, prices and related conditions of trade.

35. In order to promote and implement such a trade information system, interested countries might consider the creation of a promotion committee for the establishment of a trade information system of the developing countries. Depending on the national practices, both governmental and other trade information services could be represented in the committee. They might be joined by integration secretariats and other subregional or regional institutions providing specialized information and export promotion services to their member countries, as well as by competent international organizations which could lend their support to the promotion committee and to the fulfilment of the interregional data bank functions (including UNCTAD, GATT, the International Trade Centre UNCTAD/GATT, the regional commissions, UNDP and the Action Programme for Economic Co-operation among Non-aligned and Other Developing Countries).

D. Co-operation among State trading organizations

36. State trading organizations have been established by a large number of developing countries as instruments for implementing broad economic and commercial policy

[15] Contract techniques could facilitate the participation of State trading countries, provide a useful balancing instrument to commitments in other negotiating areas, and take account of specific import interests of developing countries. Such negotiations could be based on an exchange of offer and request lists on an item-by-item basis, or concentrate on suitable product groups, such as food products or certain basic manufactures. While contracts as a rule would be applied bilaterally, the multilateral framework would offer a means to promote such agreements, to increase transparency and to provide principles offering enlarged possibilities for participation to an increased number of countries.

objectives, such as domestic price stabilization of basic commodities, public control over essential imports, the indigenization of import or retail trade, the development of trade with socialist countries, and the diversification of exports into non-traditional lines. It has come to be recognized, however, that these same organizations can serve as an important spearhead in promoting economic co-operation among developing countries, since they are in a unique position to implement government policies in that respect. The existence of similar organizations in a large number of developing countries therefore provides a ready framework for an important area of such co-operation.

37. Co-operation among State trading organizations has an important role to play in the promotion of economic co-operation among developing countries in a number of respects. Thus the present dominance of North-South trade by powerful transnational corporations often places the developing countries in a weak bargaining position, and co-operation among State trading organizations in regard to both imports and exports, covering such areas as trade intelligence, training, joint procurement, market research and export promotion, could provide the basis on which to strengthen the countervailing bargaining position of developing countries. In respect to imports from developed countries, co-operation among these organizations could perhaps best be achieved in homogeneous goods where the weight of pooled orders by several developing countries can favourably affect price and other terms of sale. And in respect to exports, such co-operation could be especially relevant for differentiated non-traditional products where joint market research and joint distribution outlets could significantly reduce the overhead costs of penetrating new markets.

38. Measures for the promotion of co-operation among State trading organizations require action at various levels—by Governments of developing countries and their State trading organizations, by the developing countries as a group, and by the international community as a whole.

39. Governments of developing countries have agreed on the principle of making co-operation among State trading organizations a primary component of their broader programme of economic co-operation. Measures which individual developing countries could take in promoting such co-operation include, where appropriate, the strengthening of the rules, regulations and documentation procedures related to foreign trade and designed to lend support to joint endeavours by State trading organizations. Also, consideration could be given to providing these organizations with liberal financing facilities as well as priority access to foreign exchange allocations where this is necessary to facilitate the objectives of economic co-operation.

40. Other measures which could be taken by developing countries themselves include the establishment by the State trading organizations of different countries of joint facilitation centres in important terminal markets to strengthen their marketing and market information systems. And after sufficient experience has been gained in the operation of such centres it may be practicable to proceed to the establishment of joint trading offices for specific commodities. Development along these lines could eventually link up with efforts to establish multinational marketing enterprises among developing countries.

41. Long-term quantity contracts with provision for an equitable pricing mechanism could constitute an important instrument for promoting mutual trade and should be pursued by State trading organizations for those items for which they engage in regular dealings among themselves. Also, they could decide not to engage private agents to oversee their contracts with one another; instead each could be appointed to act as the agent of the others in dealings with private parties in its country. State trading organizations should agree to grant each other "preferential trading partner treatment", including special prices, assured quantities and guaranteed deliveries, to encourage and expand mutual trade. To enable the State trading organizations of other developing countries to participate effectively in tender business. Governments could multilaterally decide to dispense with the submission of bid bonds and performance guarantees by such organizations. This would bring them into line with the commercial practice followed by the private sector, where it is not customary to seek or give bonds or guarantees. Furthermore, State trading organizations in developing countries might multilaterally agree to furnish each other copies of their tender and other purchase notes, free of cost. Those exporting non-traditional items in common could undertake joint export promotion measures, including permanent display centres, the publication of advertising material, and participation in exhibitions and trade fairs. Joint marketing groups able to negotiate directly with large wholesale buyers could also be created. State trading organizations in neighbouring countries could also establish joint storage and warehousing facilities at convenient locations, and arrangements made to allow State trading organizations in such countries to take advantage in cases of emergency of the facilities and goods available to some of them at given periods.

42. To monitor, promote and orient all the activities carried out under the broad heading of co-operation among State trading organizations, a small working group of interested developing countries could well be established. Also, meetings of these organizations should be convened on a regional basis to discuss the essential features of proposed co-operation projects. Such meetings could be institutionalized in the form of regional councils of State trading organizations, and members could avail themselves of the councils' commercial management services. In order to assist in the formulation of specific projects, detailed feasibility studies of co-operation schemes suggested at the regional council meetings should be undertaken by the competent international agencies, in close collaboration with the organizations concerned.

43. In the light of the experience gained in the working of regional councils of State trading organizations, the working group suggested above, aided by a suitable international agency, should consider promoting during the 1980s a central council of State trading organizations dealing in food items. Its constituent meeting could be convened to promote the establishment of direct trade channels in foodstuffs, including long-term bulk purchasing contracts. For such a meeting, the technical servicing could be undertaken in co-operation with the secretariat of UNCTAD. A close working relationship should be established between such a working group and the UNCTAD secretariat, the regional commissions, and international centres for public enterprises in developing countries such as that established in Ljubljana, Yugoslavia.

44. Support from the international community should include, on a priority basis, the compilation of a comprehensive handbook of State trading organizations of developing countries which could serve as a tool for the promotion of their mutual business contacts. This handbook should be regularly updated and provide basic data on all State trading organizations of developing countries—addresses, names of principal officers, products traded and organizational structure. In addition, their needs for basic training facilities at the national, subregional and regional level should be evaluated with a view to the organization of seminars and longer-term training programmes for senior and middle-level managerial personnel, tailored to include the specific needs of co-operation. Advisory and consultancy services to individual organizations should be provided in the field of international marketing and procurement. Special regional units for training and consultancy services to State trading organizations should be created and located at a central point in each region, initially for a test period. Among the services to be extended by such units are in-depth studies of strategic import commodities, such as cereals, pharmaceuticals, vegetable oils, fertilizers, iron and steel, non-ferrous metals, mining equipment and equipment for the public service sector, in the context of the scope they may offer for promoting co-operation among State trading organizations.

E. Multinational marketing enterprises

45. The studies carried out by the UNCTAD secretariat[16] indicate that multinational marketing enterprises can play an important role in promoting collective self-reliance and economic co-operation among developing countries. The major objective of establishing such enterprises is to provide a framework in which developing countries can pool their efforts so as to improve efficiency and effectiveness in the marketing of their export products and to enhance their bargaining position in world markets. Such pooling of effort can improve the efficiency and effectiveness of marketing in a number of ways, for both traditional and non-traditional export products. Thus, most developing countries are at present usually passive exporters in the sense that the final stages of the marketing and distribution of their export products are undertaken by the importers in developed countries, often dominated by the large transnational corporations. The reasons for this are various. For non-traditional commodities the relatively small volume, exported by most individual developing countries makes it difficult to contemplate the mounting of major marketing operations in foreign markets, and for the traditional commodities it is often difficult to break into the traditional trading pattern. By pooling their efforts, however, groups of developing countries may be able to command enough volume and to establish international trading operations on a sufficiently large scale to make marketing efforts in developed countries' markets practicable and thereby achieve the twin objectives of increasing their penetration in these markets and at the same time improving their returns from the marketing and sale of their export products.

46. While the benefits to be derived from joint action in the marketing of export products may be easy to demonstrate, difficulties in the way of implementing effective action in this area are also apparent, for example, where competition in the field of certain traditional exports makes co-operation difficult. The study of the experience of multinational marketing enterprises in both developed and developing countries indicates that, in general, such enterprises are the result of a long process which started with more limited objectives, such as the exchange of information, and led in time to further co-operation in fields such as production, technology and marketing. This suggests that even where joint export operations may not be feasible in the short run, co-operation could start in fields such as exchange of information, joint market research and joint distribution outlets. Such co-operation could significantly improve marketing operations by reducing overheads and by permitting a more intensive promotion effort for exports to major developed market economy countries than would otherwise be possible.

47. Developing countries already have in operation a number of instruments and mechanisms which could facilitate the implementation of co-operation arrangements in relation to the marketing of their export products. Thus producers' associations already exist, linking developing country exporters of a number of commodities. Such associations could provide a convenient base from which to develop co-operative marketing arrangements. Also, in a number of developing countries State trading organizations exist which are responsible for the export of their products. The potential for co-operation among such organizations, discussed above, is such that they could be powerful vehicles for deriving the benefits from co-operative action in the marketing of export products. The existing subregional and regional integration schemes linking producers of individual products, as well as the regional and subregional chambers of commerce and industry, are also important instruments through which co-operation of export producers in the field of marketing could be developed.

48. While all forms of co-operation in the marketing of export products should be nurtured and developed, the underlying aim should be to explore possibilities for the establishment of multinational marketing enterprises capable of exploiting to the fullest extent possible the potential for joint action in this field. The establishment of such enterprises will require both the identification of suitable opportunities reflecting the underlying economic realities and the development of the appropriate political framework of trust and co-operation among participating countries. In addition, the appropriate legal framework will need to be established.

49. A number of subregional and regional economic schemes have already established régimes for the promotion of multinational enterprises (for example, the Andean Group, the Caribbean Community (CARICOM) and the Customs and Economic Union of Central Africa (UDEAC)). While these régimes are not specifically designed for the promotion of marketing enterprises as such, they can well provide the legal and institutional framework for the promotion of such enterprises. This is all the more to since multinational marketing cannot be viewed in isolation from other areas for multinational co-operation in respect of, for example, production, research and technology, transport and other ancillary and financial services. The interrelation-

[16] For a list of the studies, see annex II.

ship between these important areas requires a common framework in which co-operation can be simultaneously pursued in all of them. Moreover, while marketing and distribution may be the primary concern, the multinational enterprise, in order to pursue its objectives effectively, may also need to become directly involved in production, stocking and transport and related financial and other services. The operations of such enterprises could include related activities, such as joint import procurement of inputs required for production of the relevant export commodities. It could also be envisaged that such enterprises would be empowered to intervene in the international commodity markets to stabilize the price of the relevant commodities, to contract loans and acquire equity in firms operating in its area of concern, and to provide finance for buffer stocks, production and related infrastructural facilities.

50. In the light of the considerations discussed above, and on the basis of the research and consultations carried out by the secretariat of UNCTAD in responding to the request for new initiatives and studies in this area, the following measures of support for the promotion of multinational marketing enterprises are suggested:

(*a*) Support for initiatives generated by public and private promotional schemes (e.g. proposals emerging from State trading organizations, producers' associations, the Council of Producers' Associations, subregional and regional integration and co-operation schemes, regional and subregional chambers of commerce and industry, and other private and public, national and multinational promoters). Such support would consist of the provision of technical and financial assistance, when requested, to projects for multinational marketing arrangements emerging from such organizations;

(*b*) Direct promotional action through sectoral studies and promotion of sectoral and multisectoral meetings of producers and exporters to detect opportunities and promote new initiatives for multinational marketing action at the subregional, regional and interregional levels, as the case may be, for the commodities identified by the UNCTAD secretariat on the basis of consultations with Governments and public and private enterprises.[17]

F. The strengthening of subregional, regional and interregional economic co-operation among developing countries

51. Over the years, much progress has been achieved in forging subregional, regional and interregional economic co-operation among developing countries, and at present a large number of integration schemes of developing countries exist at these various levels.[18] The existence of these schemes therefore provides a concrete base on which to build wider programmes of economic co-operation among developing countries and of collective self-reliance. The strengthening of such economic co-operation schemes can make a major contribution to this wider effort. The mutually supporting interrelationships between the various elements of economic co-operation among developing countries and existing subregional, regional and interregional integration schemes deserve special emphasis. Thus, as is made clear in the discussion in the relevant parts of this report, the implementation of co-operation efforts in various fields, such as State trading organizations, multinational production and marketing enterprises, monetary and financial co-operation and the global system of trade preferences, can be greatly facilitated by making use of the mechanisms and institutions of subregional, regional and interregional integration schemes. At the same time, such schemes can be greatly strengthened and made more effective and relevant by incorporating into their framework various aspects of these elements and components of economic co-operation among developing countries. The need for strengthening these integration schemes should therefore be seen within the wider framework of the over-all approach to economic co-operation and to collective self-reliance.

52. The strengthening of subregional and interregional co-operation has continued to be an important component of the work programme of UNCTAD on economic co-operation among developing countries. Such activities have focused on assistance to subregional and regional economic co-operation and integration groupings of developing countries to (i) overcome a number of obstacles of diverse nature encountered in the implementation of their respective programmes; (ii) propose ways and means of expanding the scope of these programmes to include additional economic sectors, where appropriate, and increase the number of participating countries; and (iii) create interregional links among these schemes. The programme also involves an intensification of research on specific integration problems and technical support activities, most of them financed by UNDP.

53. A large number of documents on matters regarding specific problems of economic integration and co-operation have been prepared by the UNCTAD secretariat, which has also organized and serviced a substantial number of meetings (seminars, working groups and export groups) devoted to these matters. Practically all the existing economic groupings of developing countries have to a greater or lesser extent received assistance from the UNCTAD secretariat, thanks to projects financed mainly by UNDP.[19] In many cases, the assistance has been provided in collaboration with the regional commissions and/or other appropriate bodies of the United Nations system.

54. A working party on trade expansion and regional economic integration among developing countries was convened in April 1978 by the UNCTAD secretariat, which prepared a document[20] for its consideration. The Working Party was attended by the secretariats of most of the economic groupings of developing countries, as well as by organizations of the United Nations system, and prepared a report which contains recommendations for action in a

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[17] For a list of commodities identified by the UNCTAD secretariat, see TD/244/Supp.1, chap. III, reproduced in the present volume.

[18] For a list of regional and subregional economic co-operation and integration arrangements of developing countries, see annex I.

[19] Those groupings which currently receive assistance from the UNCTAD secretariat are indicated in annex I.

[20] "Strengthening of subregional, regional and interregional economic co-operation and integration: note by the UNCTAD secretariat" (UNCTAD/ST/ECDC/2).

number of areas relating to subregional, regional and interregional co-operation.[21]

55. The Working Party recognized that there was an urgent need to strengthen the institutional mechanisms for co-ordination, through meetings of the secretariats of economic co-operation groupings, through meetings of developing country experts and through a machinery for discussion between secretariats and multilateral financial institutions of developing countries. Support for efforts to establish such mechanisms for co-ordination should be given high priority.

56. The Working Party felt that a central co-ordination arrangement among the secretariats of subregional and regional groupings was desirable to promote and facilitate the establishment of links among such groupings and provide the technical support which may be required by their organs in regard to co-ordination arrangements among themselves. Such a mechanism could have the following functions: to assist and promote co-operation among the secretariats themselves; to contribute to harmonizing the positions and policies of economic groupings in regard to global negotiations, in the light of their respective mandates; to develop a system of exchange of information on all aspects of interest to the various groupings; to make proposals for *ad hoc* action to be taken at the interregional level in pursuance of the objectives of economic co-operation among developing countries; and to identify additional opportunities for co-operation arising at the interregional level which would not normally be detected within the framework of existing co-operation groupings. The Working Party felt that this mechanism, which would take the form of an intersecretariat consultative group composed of the secretariats of such groupings, could also assume responsibility, together with UNCTAD, the regional commissions and other appropriate organizations of the United Nations system, for the preparation of substantive studies and for providing servicing facilities on economic co-operation among developing countries. It recommended that such a group be established on a provisional and informal basis. The group, which could be organized and serviced by UNCTAD, could meet at least once a year.

57. Joint approaches to the treatment of transnational enterprises in integration movements are under consideration in a number of groupings of developing countries. UNCTAD has already undertaken studies on the role of such enterprises in the context of Latin American integration movements. Studies of this nature could be pursued by UNCTAD with respect to other regional and subregional groupings, in order to provide support to Governments that are considering joint action in this field.

58. Although considerable financial support has been forthcoming from UNDP, the UNCTAD activities directed towards strengthening subregional, regional and interregional co-operation have been severely circumscribed by financial constraints, and a number of opportunities and openings for economic co-operation have had to be missed, deferred, or limited for this reason. The valuable financial support for these activities provided by UNDP constitutes an important contribution and has been highly appreciated. In view of the critical importance of these activities to the achievement of the over-all objectives of economic co-operation among developing countries, however, and of the major tasks still remaining to be accomplished, there is an important need to reinforce the capacity of UNCTAD to support activities in this field.

59. In its efforts to stengthen its support to regional and subregional economic co-operation institutions, the UNCTAD secretariat has made special co-operation arrangements with a number of such institutions, including the Latin American Economic System (SELA), the West African Economic Community (CEAO) and the Andean Group. Similar arrangements are currently envisaged with respect to a number of other such institutions.

G. Monetary and financial co-operation

60. It is generally recognized that schemes for the expansion of trade among developing countries through the liberalization of tariffs and other obstacles to such trade need to be supported by a number of concerted monetary and financial measures, including multilateral payments and clearing arrangements, trade financing facilities and capital and financial flows.

61. A large number of developing countries are at present members of subregional and regional multilateral payments, clearing or credit arrangements, and recent years have witnessed an increase in and a strengthening of such subregional and regional schemes. At the same time, a number of developing countries whose actual and potential trade and financial flows suggest that they could benefit from participation in such schemes do not at present do so. Assistance is therefore required in identifying the scope for extending the coverage of countries participating in such schemes.

62. Although much progress has already been achieved in the establishment of multilateral payments and clearing arrangements at the subregional and regional levels, little progress has so far been made in establishing links between such schemes, either at the regional level or between regions, and such links must be envisaged as the next stage of co-operation in this field. Even if the volume of intergroup transactions has not been large enough in the past to make the need for such links apparent, changes in the pattern of world trade and in the trade of developing countries, and the growing need of developing countries to foster mutual trade among themselves, suggest the emerging need for such links. As a result, the authorities of existing payments and monetary arrangements have been showing increasing interest in the possibilities for co-operation among such schemes.

63. A working group on multilateral payments arrangements met in Caracas, Venezuela, in July 1977, under the joint auspices of the Central Bank of Venezuela and the UNCTAD secretariat. It recommended the establishment of a co-ordination committee of existing payments and monetary arrangements with the participation of UNCTAD as well as IMF, the regional commissions and other relevant institutions. The Secretary-General of UNCTAD was invited

[21] "Report of the Working Party on Trade Expansion and Regional Economic Integration among Developing Countries" (TD/B/702-TD/B/C.7/9). The Fourth Ministerial Meeting of the Group of 77, held at Arusha, United Republic of Tanzania, in February 1979, took note of the recommendations made by the Working Party (see vol. I, annex VI, "Arusha Programme for Collective Self-Reliance and Framework for Negotiations", sect. II, para. 2).

to organize the first session of the Committee, which took place in Bangkok from 11 to 14 July 1978 under the joint sponsorship of UNCTAD and the Economic and Social Commission for Asia and the Pacific (ESCAP).[22]

64. The Committee is expected to consider proposals regarding the establishment of links among some or all of the payments and monetary arrangements of developing countries; to consider the nature of the relationship that could be established between such arrangements and the settlement system in transferable roubles of the member countries of the Council for Mutual Economic Assistance (CMEA); to arrange assistance, whenever required, to emerging multilateral payments and monetary arrangements; to facilitate the exchange of information; to consider ways and means of improving the operations and effectiveness of existing arrangements; to promote closer collaboration among developing countries on issues relating to payments and monetary arrangements; and, in general, to work towards the attainment of the objectives of monetary co-operation enunciated by the Group of 77.

65. The Co-ordination Committee on Multilateral Payments Arrangements and Monetary Co-operation among Developing Countries represents the first effort for effective collaboration among institutions of developing countries in the monetary field. It is a forum where, in an informal and practical way, a systematic co-ordination of the external relations of existing multilateral arrangements will begin and a thorough examination of a wide range of issues of common interest will be undertaken. The flexibility provided by the Committee will undoubtedly facilitate the working out of concrete proposals to be submitted at the appropriate levels of decision.

66. The Co-ordination Committee invited UNCTAD to serve as its technical secretariat for an initial period of two years. The Committee also invited the regional commissions, IMF and other relevant international organizations to continue extending assistance and to fully support the technical secretariat in carrying out its functions. The Committee, realizing that multilateral payments and monetary arrangements are essential elements in facilitating the expansion of trade among developing countries, invited the technical secretariat to undertake a programme of work, covering, *inter alia,* (i) the preparation of a report on common features and obstacles and restrictions faced by payments arrangements, as well as a set of proposals to surmount such obstacles; (ii) the elaboration of proposals leading to a general scheme for the gradual linkage of all the payments arrangements of developing countries within the framework of a global strategy of expansion of trade; (iii) elaboration of a survey regarding existing financial instruments and mechanisms for financing trade and balance-of-payments deficits of developing countries with a view to submitting proposals to close the gap in that field; and (iv) to facilitate the exchange of information and experience among multilateral arrangements of developing countries as well as between such arrangements and monetary institutions of developed countries and socialist countries of Eastern Europe. A high-level group of experts which met in Geneva from 6 to 10 November 1978 to examine, among other issues, the role of the Co-ordination Committee in facilitating the convergence and linkage of multilateral arrangements formulated some guidelines for the future activities of the Co-ordination Committee.[23]

67. Aside from simple clearing arrangements, payments unions with the resources for extending substantial medium-term balance-of-payments support to participants would be desirable for facilitating an expansion of trade among developing countries. In addition to the foreign exchange resources of the participants themselves, such schemes would require external resources which could come from the existing multilateral development finance institutions or from a new long-term finance facility.

68. In their efforts to increase their exports, developing countries face certain difficulties connected with the provision of credit, particularly in cases where medium-term or long-term credits are required. Various institutions have established mechanisms to overcome some of the principal constraints in this area. The Inter-American Development Bank and the Andean Development Corporation, in the Latin American region, have set up financing facilities to support exports of member countries. The Islamic Development Bank has also set up a scheme to foster trade within the Islamic world. However, in many other areas no mechanisms are available and there remains an urgent need for devising a new facility to provide medium-term and long-term financing for the expansion of trade among developing countries, with particular attention to those which face obstacles in raising money in the financial markets, as well as to the situation of the least developed countries. The work already undertaken by UNCTAD in the design of an export credit guarantee facility and the proposals made on this subject[24] would complement and enhance possibilities for a global strategy for the financing of the foreign trade of developing countries.

69. There is also need for a special study of the capital markets of selected surplus developing countries for the purpose of improving access by other developing countries to these capital markets. Furthermore, the identification and implementation of measures to promote and encourage investment among developing countries also needs to be intensified in terms of the UNCTAD work programme in this field.

70. The establishment of a bank of developing countries in line with the Mexico City mandate,[25] specializing in the mobilization of international resources, has substantial merit and deserves full consideration within the over-all context of encouraging financial co-operation among developing countries.[26]

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[22] For the report of the first meeting of the Co-ordination Committee on Multilateral Payments Arrangements and Monetary Co-operation among Developing Countries, see UNCTAD/ECDC/14.

[23] See the report of the Meeting of a High-level Group of Experts on Economic Co-operation among Developing Countries (UNCTAD/ECDC/TA/4).

[24] See document TD/234 above, chap. V; and "An export credit guarantee facility—Part I, Main policy issues: report by the UNCTAD secretariat" (TD/B/739 (Part I)).

[25] See the report of the Conference on Economic Co-operation among Developing Countries (cf. foot-note 5 above), vol. I, part one, sect. A.IV.

[26] The Arusha Programme for Collective Self-Reliance contains, in sect. II. 1, para. 17 (*c*), a request that the UNCTAD secretariat should prepare a report on the practical feasibility of establishing a bank for developing countries on sound banking practices, taking into account existing institutions.

71. Financial co-operation among developing countries has been considerably intensified in recent years. Financial flows, particularly from OPEC, have now grown to significant proportions, and a large number of development funds have been established, either individually or collectively, by developing countries. An important feature of OPEC aid is the large share of general support assistance that is not tied to specific projects. Another significant feature of resource transfer from members of OPEC to other developing countries is the emphasis on joint ventures in agricultural and industrial projects located in the capital-importing countries, which serve the mutual interests of the parties involved. It should also be noted that a number of developing countries which are not members of OPEC offer development aid in one form or another, while at the same time receiving it from other sources. Much of this aid takes the form of technical assistance, though some countries extend bilateral financial aid and contribute to multilateral organizations. Although the amounts are small in relation to total flows, this is an important phenomenon that should be encouraged.

72. In accordance with the work programme adopted by the Committee on Economic Co-operation among Developing Countries at its first session (see para. 17 above), the UNCTAD secretariat has been analysing and reviewing financial flows among developing countries as an important aspect of economic co-operation among them. Such reviews, which are expected to be prepared and published annually, will cover the financial co-operation efforts of all developing countries as well as the various multinational monetary and payments arrangements among them, and should serve an important role in helping to enhance progress in this field.

H. Multinational production enterprises

73. Collective self-reliance implies an active approach towards the creation of additional productive capacity through joint efforts, and in this context multinational production enterprises have an important role to play as an instrument of economic co-operation among developing countries. Over the past several years, useful experience has been accumulating in the field of joint ventures among developing countries in a number of industrial sectors,[27] and this experience provides a valuable guide to the development of new opportunities for joint production activities which can take advantage of existing complementarities among developing countries and contribute to the expansion of trade and economic co-operation among them.

74. The Mexico City Conference and the Lima Declaration and Plan of Action on Industrial Development and Co-operation[28] have set the basic policy guidelines for the identification, formulation and establishment of multinational production enterprises among developing countries. Such enterprises could include projects physically located in one or more countries and of significant economic interest to two or more countries, projects which have significant input or output linkages with existing or proposed activities in more than one country, thereby exploiting relevant complementarities between participating countries, and projects which can only be economically viable on the basis of markets larger than one single country can provide. Joint enterprises established on this basis can contribute to the more effective utilization of resources, encourage specialization and exploit complementarities, better utilize participating countries' scarce management, technical and marketing and distribution capabilities, and foster mutual trade.

75. A number of considerations will determine those production activities which should receive highest priority in the choice of multinational projects for the attainment of the objectives of economic co-operation among developing countries. Thus, special consideration should be given to projects having a great social significance to the participating countries as well as to projects which can facilitate the downstream processing of natural resources and the establishment of fully integrated industries. Important also are industries related to the further expansion and development of basic industries and engineering products. Similarly, projects in research and development which could make a substantive contribution to the transformation of the technological base of participating countries should be favoured.

76. The promotion of multinational production enterprises requires the establishment of appropriate intergovernmental arrangements for the identification and evaluation of project ideas and proposals, for the selection and formulation of projects and for other related promotional activities. There is also the need for an appropriate legal framework for the establishment and operation of such enterprises. Possible institutional arrangements for the promotion and establishment of joint production enterprises range from formal approaches within integration groupings, including market integration and sectoral planning, to *ad hoc* institutional arrangements for the provision of inputs and markets, and the necessary flexibility should be exercised in the choice and use of the appropriate instrument. In any event, there will probably be a need for revising, strengthening and co-ordinating existing machinery if an adequate framework for the promotion and establishment of such enterprises is to be provided. In this context, it may be worth considering the comprehensive action-oriented mechanism suggested in the report of the High-level Group of Experts on Economic Co-operation among Developing Countries which met in Geneva from 6 to 10 November 1978,[29] and involving the establishment of a servicing and consultative body open, on request, to all the parties interested in setting up new multinational production enterprises.

77. An important objective in the establishment of multinational production enterprises in the furtherance of the desire of developing countries for collective self-reliance is that the developing countries themselves must maintain

[27] Reference may be made here to a number of consultant studies on joint ventures for the various regions of developing countries prepared at the request of the UNCTAD secretariat. These include: "Joint ventures among Latin American countries", by A. Casas-González (TD/B/AC.19/R.2 and Corr.1), "Joint ventures among African countries", by P. N. C. Okigbo (TD/B/AC.19/R.3), "Joint ventures among Arab countries", by I. F. I. Shihata (TD/B/AC.19/R.5 and Corr.1), and "Joint ventures among developing Asian countries", by R. Gopal Agrawal (TD/B/AC.19/R.7 and Corr.1).

[28] Adopted by the Second General Conference of UNIDO, held at Lima, Peru, from 12 to 26 March 1973 (ID/CONF.3/31, chap. IV).

[29] UNCTAD/ECDC/TA/4.

effective control over such enterprises and their activities. This means that, in cases where it may be necessary for contributions in the form of financial resources, technology or management services to come from sources other than the participating developing countries, this should be within a framework which can ensure the maintenance of effective control by the developing countries themselves.

78. The United Nations system—and particularly UNIDO, FAO and UNCTAD in their respective fields of competence—will need to continue playing an active role in supporting the developing countries' efforts for the establishment of multinational production enterprises as a basic element in their search for collective self-reliance. Such support should include the elaboration in more detail of policy guidelines for the identification and selection of multicountry production projects; sectoral studies on a world-wide basis for the identification of multinational investment projects at the subregional, regional and interregional levels, based on the pattern of resource availability, market potential, the scope for exploiting complementarities and specialization; the formulation, when requested, of pre-investment studies of specific multinational projects agreed upon by interested developing countries; assistance in facilitating intergovernmental consultations as well as consultations with multinational financial institutions for funding and implementation, and assistance, when requested, in resolving trade, technical and related issues. The sectoral studies already undertaken by the UNCTAD secretariat in consultation with UNIDO and FAO in the fertilizer, rubber products and paper industries represent a first phase in the implementation of such support measures, and these efforts will need to be strengthened and extended as appropriate. Continued close co-operation will need to be maintained between the UNCTAD secretariat, UNIDO, the regional commissions, FAO, and other appropriate bodies of the United Nations system.[30]

I. Co-operation in the transfer and development of technology

79. The Mexico City programme provides for a number of measures in the field of co-operation among developing countries in the transfer and development of technology, including unification of positions at the international level, the establishment and linking up of technology centres at the national, subregional, regional and interregional levels, and the adoption of joint policy measures in specific fields. The support given by UNCTAD to this component of the Mexico City programme aims at identifying the main elements of a new strategy for the technological transformation of developing countries, implying the restructuring of the existing international legal and juridical framework and the strengthening of the technological capacity of developing countries.

80. Changes in the legal and juridical framework in the field of technology (for example, a code of conduct for the transfer of technology and a revision of the industrial property system) are necessary if the developing countries are to obtain, under adequate terms and conditions, the technology which they need. These need to be supplemented by a comprehensive programme of action by the developing countries, both individually and in co-operation among themselves.

81. UNCTAD could provide support and assistance not only for the strengthening or establishment of national, subregional, regional and sectoral centres for the transfer and development of technology, but also in the establishment of links among such centres so that they may elaborate joint policies, plans and institutional structures and arrange for the skill exchanges required for accelerating the technological capacity of developing countries.

82. In the light of activities being undertaken in the pharmaceutical sector, UNCTAD could assist developing countries in identifying and undertaking specific action at the subregional and regional levels with respect to other sectors of great importance to them. In this respect, account should be taken of UNCTAD studies concerning the following sectors: energy, capital goods and technology in the iron and steel sector, electronics, food industry, national design and engineering organizations and transfer pricing.

83. Co-operation among developing countries for the exchange of skills should be expanded, and UNCTAD could assist in this respect. UNCTAD could also assist in the elaboration of schemes of preferential treatment among developing countries supplementing an international code of conduct for the exchange of technology.

84. With the establishment of its Advisory Service on Technology, UNCTAD is in a position to assist developing countries actively in the above endeavours. However, the means available in the Advisory Service should be commensurate with these new tasks.

J. The least developed among the developing countries

85. In addition to the major steps to be taken by the developed countries in support of the efforts of the least developed countries, the developing countries themselves can provide important support in a number of areas within the framework of economic co-operation among developing countries.

86. A new programme of action for the 1980s for the least developed countries will benefit greatly from co-operation arrangements among developing countries.[31] Such arrangements should include the following elements:

(*a*) Any preferential arrangements among developing countries in the field of trade (tariff and non-tariff barriers) should provide for special and more favourable treatment for the least developed countries;

(*b*) Within regional co-operation schemes among developing countries, arrangements should be made: (i) for the establishment of multinational ventures in the least developed countries with a guaranteed regional market; (ii) for joint exploitation of common river-basin or other resource potential, with special support provisions for

[30] The proposal to establish and *ad hoc* UNCTAD/UNIDO group of experts to undertake an examination of the trade and trade-related aspects of industrial collaboration, approved on behalf of UNCTAD by the Trade and Development Board at its eighteenth session, by decision 172 (XVIII), and on behalf of UNIDO at the eleventh session of the Permanent Committee of the Industrial Development Board (see ID/B/215, para. 146), is a concrete example of interagency co-operation in this field.

[31] For details, see document TD/240, reproduced in the present volume.

participating least developed countries; (iii) for regional and subregional training programmes, with special attention to the needs of the least developed countries in a regional grouping;

(*c*) Developing countries in a position to do so should substantially expand their flows of concessional financial and technical assistance to the least developed countries;

(*d*) Developed countries and international institutions should assist the flow of technical assistance and assistance in kind from other developing countries to the least developed countries by helping to offset the foreign exchange costs of such flows. They should also give especially strong support to regional co-operation arrangements which include significant benefits to least developed countries.

87. As part of the preparations for the new programme of action for the 1980s for the least developed countries, there is also a need for a meeting of the developing countries to consider the various measures they might provide in support of this programme in the context of subregional, regional and interregional co-operative arrangements amongst themselves. Progress and problems in this regard might be reviewed at subsequent meetings of this type. The Conference may wish to request the Secretary-General of UNCTAD to convene such meetings.

K. Land-locked and island developing countries

Land-locked developing countries

88. The problems of land-locked developing countries have been the object of investigation by UNCTAD since its inception. The report of a group of experts that met in May 1973[32] has paved the way for the present UNCTAD policy emphasis on an "integrated planning approach" to the transit-transport problems of the land-locked developing countries. The integrated planning approach requires full co-operation between land-locked countries and their transit neighbours, as well as a clear recognition that major efforts to reduce the cost of access to the sea and to world markets facing land-locked developing countries will necessitate improved practices and new investments not only within the land-locked developing countries but also within the neighbouring transit countries. It requires as well recognition of the role of international assistance to make possible necessary improvements in the transit country intended largely for the benefit of the land-locked country.

89. UNCTAD has now begun to carry out detailed costing studies in order to bring into a consistent framework all of the relevant information on each particular transit corridor, including the present chain of costs arising between the sea and the inland centre of the land-locked country. These costing studies should provide decision-makers with a clear indication of the changes that are likely to have the highest pay-offs and a clear guide to the priorities for more detailed follow-up on specific improvement projects, and they should form a concrete basis for attracting needed assistance from the international community.

Island developing countries

90. Island developing countries, particularly the smaller, more remote islands, often suffer from acute handicaps related to their geographic situation. A major element for improved conditions for these countries can be provided through co-operation arrangements in a variety of fields, as well as through broader integration schemes. For example, the small island developing countries will greatly benefit from co-operation arrangements among themselves in areas such as the development of shipping, air services, telecommunications, tourism, insurance and reinsurance.

L. Co-operation in insurance

91. The Mexico City programme calls upon UNCTAD to make a substantial contribution in this field. The Committee on Economic Co-operation among Developing Countries, in resolution 1 (I), instructed UNCTAD to intensify the ongoing work and activities in connexion with regional and subregional insurance and reinsurance schemes among developing countries. A medium-term action plan for enhanced support in this field should be aimed at intensifying present efforts in order to strengthen national insurance markets in developing countries, as particularly called for in Conference resolution 42 (III), increase exchange of reinsurance business between developing countries aimed at a corresponding decrease of dependencon outside developed reinsurance markets, and promote technical and institutional mechanisms, professional skills and operational methods that will generate insurance services fully adapted to the increasing needs and specific requirements of developing countries.

92. The UNCTAD secretariat's programme of work on insurance should give appropriately high priority to the attainment of the above objectives, and a report on progress should be made to the Committee on Invisibles and Financing related to Trade.

CHAPTER III

Support measures by developed countries and the international community

A. Measures of support by developed countries

93. There are compelling reasons why developed countries should encourage and support economic co-operation among developing countries. Increased economic co-operation, while it would not reduce the fundamental need for structural changes in developed countries, would make it easier for the new industrial exporters among developing countries to find markets in other developing countries, thus relieving the competitive pressures on certain sectors in developed country markets. Also, economic co-operation among developing countries enhances their growth prospects, independent of developments in developed countries, thus reducing the adjustment problems of the latter countries. Furthermore, it tends to increase the size of the markets in developing regions and,

[32] *A transport strategy for land-locked developing countries: report of the Expert Group on the Transport Infrastructure for Land-locked Developing Countries* (United Nations publication, Sales No. E.74.II.D.5).

as the experience of developed countries with economic integration in Europe indicates, the effect will be to increase not only intra-trade but also trade with third countries. In addition, it will lead to more standardization in production and marketing and greater harmonization of regulations, including trade barriers, thereby making it easier for developed country exporters and importers to increase their participation in economic activities with developing countries. Furthermore, General Assembly resolutions 3201 (S-VI) and 3202 (S-VI), containing the Declaration and the Programme of Action on the Establishment of a New International Economic Order, call for measures of support from developed countries for the efforts of developing countries to promote economic co-operation among themselves.

94. The steps that could be taken by the developed countries to support economic co-operation among developing countries are spelt out in a number of documents, including General Assembly resolution 3362 (S-VII), entitled "Development and international economic co-operation", Conference resolution 92 (IV), entitled "Measures of support by developed countries and international organizations for the programme of economic co-operation among developing countries", the report of the Committee on Economic Co-operation among Developing Countries on its first session[33] and, more recently, the Arusha Programme for Collective Self-Reliance and Framework for Negotiations, adopted by the Fourth Ministerial Meeting of the Group of 77 held at Arusha, United Republic of Tanzania, in February 1979.[34] Conference resolution 92 (IV) recognizes that, while efforts by the developing countries play a decisive role in achieving their development goals, however much the developing countries mobilize their own resources in the pursuit of their economic and social objectives it would not be possible for them to achieve such objectives without concomitant action on the part of developed countries and the institutions in the international community.

95. Indeed, in trying to promote and defend their economic interests, individually or collectively, the developing countries have so far had insufficient impact on the international economic order. This situation appears to exist in regard to the areas of trading arrangements, reform of the international monetary system, investment and aid, all of which are undergoing institutional changes likely to have major repercussions for developing countries. The issue of relevance here is that in their attempts at economic co-operation among themselves the developing countries are affected by the policies of the developed countries. Consequently, Conference resolution 92 (IV), in urging the developed countries to provide, as and when requested, support and assistance to developing countries in strengthening and enlarging their mutual co-operation, asks, *inter alia*, that the developed countries, both the developed market-economy countries and the socialist countries of Eastern Europe, commit themselves to abstain as appropriate from adopting any kind of measures or action which could adversely affect the decisions of developing countries in favour of the strengthening of their economic co-operation and the diversification of their production structures.

96. In addition to abstaining from adopting measures or actions that could adversely affect the process of co-operation among developing countries, the international community should more particularly take positive steps to assist the developing countries in this regard. The following measures of support adopted by Governments and summarized from the documents mentioned in paragraph 94 above should be pursued to implementation:

(*a*) Support for existing and prospective schemes of interregional, regional and subregional economic co-operation and integration among developing countries. The measures of support should be directed as those groupings aiming at full economic integration as well as those with more limited trade, monetary and sectoral objectives and freer factor mobility objectives;

(*b*) Support for developing countries in setting up and operating multinational marketing enterprises. The support should include the removal of any existing restraints and the avoidance of any future impediments which would adversely affect their operation;

(*c*) Allocation of funds within the development assistance programmes of developed countries for the promotion of multicountry projects of developing countries in the infrastructure, industrial, agricultural, natural resources and service sectors. Assistance could be directed towards the financing of pre-feasibility and feasibility studies, the building up of project inventories, and the establishment of a continuing mechanism for cataloguing and assessing appropriate technologies and technological research;

(*d*) Adoption of measures by developed countries to lower the interest cost of loans to recipient developing countries, particularly in the context of multilateral development financing and the financing of multicountry projects;

(*e*) Provision of financial and technical support for programmes of economic and technical co-operation of developing countries;

(*f*) Provision of technical assistance and undertaking of appropriate policy measures in international trade organizations to support preferential trade arrangements among developing countries. Assistance could be provided to arrangements ranging from those of limited scope to a global scheme of trade preferences among developing countries;

(*g*) Provision of technical assistance and financing for the encouragement of trade in equipment and technological components between developing countries to facilitate the flow of technology between them;

(*h*) Provision of technical support for the establishment and strengthening of financial and capital markets in developing countries so as to enhance direct financial links between surplus and deficit developing countries;

(*i*) Provision of support for the establishment and operation of trade liberalization measures, including payments and clearing arrangements covering manufactured goods, primary commodities and services, such as banking, shipping, insurance and reinsurance;

(*j*) Adoption by the developed market-economy countries of specific actions to grant developing countries

[33] *Official Records of the Trade and Development Board, Seventeenth Session, Supplement No. 2* (TD/B/652).

[34] See vol. I, annex VI.

increased access, on favourable terms, to their capital markets;

(*k*) Adoption of measures for the expansion of existing and the creation of new export credit finance and guarantee schemes through the World Bank and regional and sub-regional development banks, taking into account the schemes currently proposed;

(*l*) Provision of financial and technical assistance for the establishment and operation of State trading organizations in developing countries, at both the national and the multinational level;

(*m*) Assistance to promote links, where appropriate, between the transferable rouble system of the International Bank for Economic Co-operation and regional and sub-regional payments arrangements of developing countries;

(*n*) Strong support by interregional, regional and sub-regional financial institutions, within their mandates, for economic co-operation among developing countries, in particular by taking into consideration the complexities involved in the promotion of multicountry projects. This may be achieved by the creation of special promotional units, by the allocation of funds for the identification, preparation and promotion and multicountry investment projects, and the provision of loan funds for the implementation of these projects;

(*o*) Changes in the aid-tying regulations of donor countries that would make it possible for aid recipients to acquire intermediate and capital equipment for other developing countries, thereby promoting further co-operation among them;

(*p*) A change in the GATT rules, through the help of the developed countries, to allow for automaticity in the institution of trade preferences among developing countries outside the framework of integration agreements.

97. The Committee on Economic Co-operation among Developing Countries is mandated to discuss developed countries' support for economic co-operation among developing countries. The role that this Committee could play in the implementation of the measures of support enumerated above could be clarified and strengthened in an action-oriented direction. In this context reference can also be made to Trade and Development Board resolution 53 (VIII), which contains some specific provisions relating to a framework for implementing support measures by developed countries. In paragraph 6 of that resolution the Board requested the Secretary-General of UNCTAD, in cases where concrete schemes relating to economic co-operation were submitted to him by groups of developing countries, "to consult developed countries on the desirability of convening meetings to examine such schemes with a view to considering national or international support action in accordance with the Declaration of Support by developed countries (Conference resolution 23 (II), paras. 17-20)". In addition, the Arusha Programme contains some new ideas for support measures by developed countries which are worthy of consideration in this context.

98. The discussion of policy issues in chapter II draws attention to a number of areas where studies already undertaken by the UNCTAD secretariat point to concrete possibilities for implementation of various measures of economic co-operation among developing countries, and the Group of 77, particularly at its Fourth Ministerial Meeting, held at Arusha, United Republic of Tanzania, in February 1979, has already committed itself to a programme of action involving implementation of measures related to some of these (see para. 105 below). Implementation of these measures will require support in various forms from developed countries, and the earlier discussion of these issues drew attention in a number of instances to specific areas where such support would be required, all of which fall within one or another of the broad support measures listed in paragraph 96 above. Hence the issue now appears to have reached the stage where support measures can move from the stage of formulation of general principles and areas for support to the identification of specific developed country support required for the implementation of concrete and clearly formulated measures of economic co-operation among developing countries. The next stage is therefore for the appropriate forum to be used for negotiations which can give effect to this support.

B. Measures of support by the United Nations system

99. Successive General Assembly resolutions have defined the responsibilities of the United Nations system in assisting developing countries to implement economic co-operation among themselves.[35] Further concomitant decisions have been adopted by the governing bodies of different organs and agencies of the system, especially since the complex and multidisciplinary character of such co-operation requires the mobilization of all available resources in terms of assistance to development. Activities singled out in these recommendations touch upon all aspects of economic activity, including development planning, marketing, production, financing, transportation, insurance, development and transfer of technology, and a multitude of related areas.

100. At the request of the Trade and Development Board, in its decision 142 (XVI) of 23 October 1976, the Administrative Committee on Co-ordination created the Inter-agency Group on Economic Co-operation among Developing Countries with the purpose of surveying and harmonizing the activities of the United Nations system in this field. UNCTAD was designated as the focal point for the collection of information from the different organs and agencies. The relevant report of the Administrative Committee on Co-ordination[36] contains information on the promotion and co-ordination activities of the United Nations system in regard to economic co-operation among developing countries.

101. At the seventy-fourth session of the Administrative Committee on Co-ordination, in the light of decisions on restructuring, it was established that responsibility for many of the tasks and functions hitherto performed by the various specialized sub-committees and other bodies would be assumed directly by the new consultative mechanism to be created. At the same time, it was understood that task

[35] General Assembly resolutions 1995 (XIX) of 30 December 1964 (as amended by resolution 2904 A (XXVII) of 26 September 1972), 3177 (XXVIII) of 17 December 1973, 3241 (XXIX) of 29 November 1974, 3442 (XXX) of 9 December 1975, 31/119 of 16 December 1976, 32/180 of 19 December 1977 and 33/195 of 29 January 1979.

[36] E/AC.51/90/Add.1 (Part I) and Corr.1 and E/AC.51/90/Add.1 (Part II) and Corr.1 and 2.

forces of a limited duration reporting to the new mechanism or other *ad hoc* arrangement might be set up, if required, for carrying out specific, well-defined tasks. *Ad hoc* subject-oriented sessions could also be envisaged for the consideration of certain issues that might require specific interagency consultation either on a periodic or on an *ad hoc* basis, particularly issues requiring cross-fertilization. The report as adopted specifically mentioned the possibility of using that type of device for the consideration of activities in the field of economic co-operation among developing countries.[37]

102. General Assembly, in resolution 33/195 of 29 January 1979, requested the Secretary-General of the United Nations to ensure, through the existing machinery, effective co-ordination and implementation of activities within the United Nations system in support of measures of economic co-operation among developing countries, by, *inter alia*:

(*a*) A more effective evaluation of the relevance of the various activities being undertaken by organizations within the United Nations system to the achievement of the objectives of economic co-operation among developing countries;

(*b*) Adaptation, as appropriate, of the organizational arrangements within the United Nations system to the requirements of promoting economic co-operation among developing countries.

103. Taking into account General Assembly resolution 33/195, as well as the terms of reference of the Committee on Economic Co-operation among Developing Countries,[38] which provide for co-ordination between UNCTAD and other members of the United Nations system and for interorganization co-operative measures in support of economic co-operation among developing countries and bearing in mind the ongoing work of UNCTAD in this area as well as the studies and activities already completed and the implementation phase which has now been reached with respect to a number of these areas, it would appear that the fifth session of the Conference will provide an opportune occasion for Governments to express themselves on the question of co-ordination and promotion arrangements within the United Nations family in support of economic co-operation among developing countries.

104. The involvement of UNCTAD in the implementation of economic co-operation among developing countries was enhanced by the creation of the Committee on Economic Co-operation among Developing Countries. The Committee has met twice. At its first session, in May 1977, it selected a number of priority subjects on which the UNCTAD secretariat was asked to initiate a series of studies or intensify ongoing work (resolution 1 (I)). The studies have now been substantially finalized[39] and therefore afford Governments the opportunity of initiating implementation procedures. The report of the Committee on its second session was submitted to the Trade and Development Board at its tenth special session.[40]

105. The Arusha Programme which contains a "first Short Medium-Term Action Plan for Global Priorities on Economic Co-operation among Developing Countries", provides further guidelines for action in a number of priority areas. In this action plan, attention was given, in particular, to sectors covered by UNCTAD's work programme where research and other activities already provided a basis for operational action, and in respect to these areas certain basic negotiating principles were agreed upon and procedures adopted for regional and interregional negotiations.[41] Furthermore, UNCTAD, in co-operation with the relevant institutions, was requested to expand its work programme on economic co-operation among developing countries both in terms of substantive back-stopping to the negotiating phases of implementation of specific activities and in terms of its research programme. Specific action was also envisaged in connexion with certain ongoing work and activities. UNCTAD was likewise requested to expand its activities of support to a substantial number of new initiatives, particularly in the fields of multinational production enterprises and monetary and financial co-operation.

106. The Conference may therefore wish to review the activities of UNCTAD in the field of economic co-operation among developing countries for the purpose of indicating the direction and scope of new activities to complement ongoing work. In so far as new areas become open for co-operative action, this could well lead to increased responsibilities within the sphere of UNCTAD, in regard to both co-operation among developing countries and support measures extended by developed countries. For a discussion on the institutional role of UNCTAD in this field, the Conference may wish to refer to chapter IV, "Institutional arrangements", of the report of the Meeting of a High-level Group of Experts on Economic Co-operation among *Developing Countries held at Geneva from* 6 to 10 November 1978.[42]

107. In this connexion, the High-level Group noted that, although in the restructuring of the United Nations system the question of how to make UNCTAD more effective had not yet been tackled, the obligations of UNCTAD in the field of economic co-operation among developing countries had increased significantly without any meaningful additions to its resources or appropriate changes in its institutional set-up that could strengthen its role.

108. As a further contributing factor to co-ordinated action, the United Nations Conference on Technical Co-operation among Developing Countries, held at Buenos Aires in 1978, established a clear conceptual definition of the link between technical co-operation and economic co-operation among developing countries. In the Buenos Aires Plan of Action for Promoting and Implementing Technical Co-operation among Developing Countries, it is pointed out that:

> The basic objectives of TCDC, which are interdependent and mutually supportive, contribute to the wider objectives of the development of the developing countries and international devel-

[37] See E/1978/144, para. 46.

[38] See Trade and Development Board decision 142 (XVI) of 23 October 1976.

[39] For a list of the studies completed, see annex II.

[40] See *Official Records of the Trade and Development Board, Tenth Special Session, Supplement No. 2* (TD/B/732).

[41] These areas relate to the establishment of a global system of trade preferences, co-operation among State trading organizations, and the promotion of multinational marketing enterprises.

[42] UNCTAD/ECDC/TA/4.

opment co-operation. They reinforce those of closely related forms of co-operation, including economic co-operation among developing countries, for which TCDC is a key instrument.[43]

Indeed, technical co-operation—as stated in the Buenos Aires Plan of Action—does in fact constitute a most significant tool for the purpose of promoting and intensifying economic co-operation among developing countries.

109. The forces for development which were marshalled at the Buenos Aires Conference will certainly contribute greatly to furthering the aims of economic co-operation among developing countries. Further, that Conference set out policy and operational guidelines which represent an up-to-date statement by the international community of the horizontal co-operation that can well be applied to economic co-operation.

110. Co-operation between UNCTAD and UNDP over a number of years has already yielded markedly satisfactory results in the promotion of economic co-operation among developing countries. Two events have coincided which may very well provide jointly a renewed impetus to this. One is the United Nations Conference on Technical Co-operation among Developing Countries, and the second is the new stage now being attained in the promotion of economic co-operation among developing countries. A reinforcement of working arrangements between UNCTAD and UNDP can be expected to make a very significant contribution to the fulfilment of this task. In this connexion, note should be taken of the views expressed by the Fourth Ministerial Meeting of the Group of 77 in section L, paragraph 24, of the Arusha Programme for Collective Self-Reliance. As economic co-operation among developing countries moves from the conceptual stage towards implementation measures in new areas, and as ongoing action is intensified, the detailed and practical approach which rules UNCTAD-UNDP co-operation should constitute a most significant contribution to the mobilization of forces in developing countries. Within the economic policy framework of each individual developing country, this should include the greatest possible incentives to intensified participation by the private sector.

[43] See *Report of the United Nations Conference on Technical Co-operation among Developing Countries,* Buenos Aires, 30 August to 12 September 1978 (United Nations publication, Sales No. E.78.II.A.11), chap. I, para. 15.

ANNEXES

ANNEX I

Regional and subregional economic co-operation and integration arrangements of developing countries

A. Regional and subregional economic co-operation and integration groupings

1. *Latin America*

* Latin American Economic System (SELA)
Latin American Free Trade Association (LAFTA)
* Andean Group
* Central American Common Market (CACM)
* Caribbean Community (CARICOM)
East Caribbean Common Market (ECCM)
River Plate Basin System

2. *Africa*

* Economic Community of West African States (ECOWAS)
* West African Economic Community (CEAO)
* Mano River Union (MARIUN)
Council of the Entente
Customs and Economic Union of Central Africa (UDEAC)
Common African and Mauritian Organization (OCAM)
Lake Chad Basin Commission
River Niger Commission
Organization for the Development of the Senegal River (OMVS)
* Economic Comunity of the Great Lakes Countries (CEPGL)

3. *Western Asia and Arab States*

Regional Co-operation for Development (RCD)
* Council of Arab Economic Unity (CAEU)
Arab Common Market
Permanent Consultative Committee of the Maghreb Countries (PCCM)

* Currently receiving assistance from the UNCTAD secretariat.

4. *Asia and the South Pacific*

* Bangkok Agreement
* Association of South-East Asian Nations (ASEAN)
South Pacific Commission (SPC)
* South Pacific Bureau for Economic Co-operation (SPEC)

B. Monetary arrangements of developing countries

1. *Payments and clearing arrangements*

Central American Clearing House
LAFTA Payments System and Reciprocal Credit Arrangements
RCD Union for Multilateral Payments Arrangements
Asian Clearing Union (ACU)
West African Clearing House (CCAO)
CARICOM Multilateral Clearing Facility
CEPGL monetary arrangement

2. *Credit arrangements*

Central American Monetary Stabilization Fund
LAFTA Financial Assistance Agreement (Santo Domingo Agreement)
Arab Monetary Fund
Andean Reserve Fund
ASEAN swap arrangement

3. *Monetary unions*

West African Monetary Union
Central African Monetary Union

C. Producers' Associations

Organization of Petroleum Exporting Countries (OPEC)
Intergovernmental Council of Copper Exporting Countries (CIPEC)
International Bauxite Association (IBA)
Association of Iron-Ore Exporting Countries (APEF)
International Association of Mercury Producers
Primary Tungsten Association

Organization of Arab Petroleum Exporting Countries (OAPEC)
Inter-African Coffee Organization (IACO)
African and Malagasy Coffee Organization (OAMCAF)
World Coffee Organization
Cocoa Producers' Alliance
* Union of Banana Exporting Countries (UBEC)
* Group of Latin American and Caribbean Sugar Exporting Countries
Association of Natural Rubber Producing Countries (ANRPC)
Inter-African Organization of Timber Producers
Council of the South-East Asian Lumber Producers' Associations
International Tea Committee
Asian and Pacific Coconut Community
Pepper Community
African Groundnut Council (AGC)

ANNEX II

List of studies relating to economic co-operation among developing countries

Symbol	*Title of document*
	A. Monetary and financial co-operation among developing countries
TD/B/C.7/26	Preliminary report on the feasibility of global payments arrangements among developing countries, prepared at the request of the UNCTAD secretariat by Mr. Jorge González del Valle
TD/B/C.7/27	Monetary and financial co-operation to support the programme of trade preferences among developing countries: report prepared for the UNCTAD secretariat by Mr. Rodrigo Llorente Martinez
TD/B/C.7/31	*Financial solidarity for development—efforts and institutions of the members of OPEC: 1973-1976 review* (United Nations publication, Sales No. E.79.II.D.9, vols. I and II)
UNCTAD/ECDC/TA/5	Report of the Panel on Monetary and Financial Co-operation among developing countries, held at the Palais des Nations, Geneva, from 23 to 27 October 1978
	B. Co-operation among State trading organizations
TD/B/C.7/16	Co-operation between State trading organizations in Latin America: report prepared at the request of the UNCTAD secretariat by Mr. Fernando Sánchez Albavera and Mr. Jesus Belisario Esteves Ostolaza
TD/B/C.7/17	Co-operation among State trading organizations of Asian developing countries: report prepared at the request of the UNCTAD secretariat by Mr. Basant Raj Bhandari
TD/B/C.7/18	Co-operation among State trading organizations of sub-Saharan African developing countries: note by the UNCTAD secretariat
TD/B/C.7/18/Add.1	Co-operation among State trading organizations of developing countries in English-speaking Africa: report prepared at the request of the UNCTAD secretariat by Mr. S. B. Rutega
TD/B/C.7/18/Add.2 and Corr.1	Co-operation among State trading organizations of developing countries in French-speaking Africa: report prepared at the request of the UNCTAD secretariat by Mr. Ibrahim Sy
TD/B/C.7/37	Co-operation among State trading organizations of Arab countries: report prepared at the request of the UNCTAD secretariat by Mr. Mohamed K. Anous
	C. Multinational production enterprises
ECDC/TA/9	The rubber industry—Present situation and prospects for future development in the natural rubber producing countries of Asia through trade expansion and economic co-operation: report prepared at the request of the UNCTAD secretariat by P. W Allen, assisted by Yusof Basiron
ECDC/TA/10	The paper industry—Present situation and prospects for further development through trade expansion and economic co-operation among developing countries: report prepared at the request of the UNCTAD secretariat by Mr. P. Glenshaw
ECDC/TA/11	The fertilizers industry—Present situation and prospects for further development through trade expansion and economic co-operation among developing countries: study prepared at the request of the UNCTAD secretariat by Mr. S. K. Mukherjee
	D. Multinational marketing enterprises
TD/B/C.7/28	Juridical aspects of the establishment of multinational marketing enterprises among developing countries: report by the UNCTAD secretariat
TD/B/C.7/28/Add.1 and Corr.1	Juridical aspects of the establishment of multinational marketing enterprises among developing countries: selection of constituent instruments of multinational enterprises compiled by the UNCTAD secretariat
TD/B/C.7/30	Juridical régimes for the establishment of multinational enterprises among developing countries organized in integration and economic co-operation groupings: report by the UNCTAD secretariat
TD/B/C.7/34	Some aspects of the establishment of multinational marketing enterprises in Africa: report prepared at the request of the UNCTAD secretariat by Mr. Fataki Liondjo, consultant
UNCTAD/ECDC/TA/1	Areas of potential interest for promoting the establishment of multinational marketing enterprises—Region: Latin America (by Mr. Fernando Sánchez Albavera and Mr. Belisario Esteves Ostolaza, consultants)

UNCTAD/ECDC/TA/3	Selected areas for the promotion of multinational marketing enterprises–Region: Asia (by Mr. Sivaranakrishna Ramachandran, consultant)

E. Global system of trade preferences

TD/B/C.7/19	Preferential trade measures within the integration and co-operation schemes in the regions of ESCAP and ECWA: study prepared at the request of the UNCTAD secretariat by Mr. Fasih Uddin
TD/B/C.7/20	Measures and arrangements for the promotion of trade in commodities and other agricultural products within a global system of trade preferences among developing countries: study prepared at the request of the UNCTAD secretariat by Mr. Jayantha B. Kelegama
TD/B/C.7/21	Trade among developing countries by main SITC groups and by regions: statistical note by the UNCTAD secretariat
TD/B/C.7/22	Review of experience to date with preferential measures in the context of Latin American integration schemes, in order to derive suggestions for a global system of trade preferences among developing countries: study prepared at the request of the UNCTAD secretariat by Mr. Felix Peña
TD/B/C.7/32	The trade preferences of the African economic co-operation and integration groupings: study prepared at the request of the UNCTAD secretariat by Mr. Melchiade Yadi
TD/B/C.7/33 (Parts I and II)	Rules of origin within a global system of trade preferences, with special reference to provisions assuring that preferential measures benefit national development: study prepared at the request of the UNCTAD secretariat by Mr. Gonzalo Valenzuela
TD/B/C.7/35	Special, differential and non-reciprocal measures in favour of least developed countries within a global system of trade preferences among developing countries: report by the UNCTAD secretariat
TD/B/C.7/35/Add.1	Survey on special, differential and non-reciprocal measures adopted by developing countries' economic co-operation and integration groupings in favour of their economically less developed member States: report by the UNCTAD secretariat
UNCTAD/ECDC/TA/2	Study on non-tariff barriers and direct measures for the promotion of trade within the framework of multilateral trade preference systems between developing countries: special aspects relating to the Latin American countries (prepared by Mr. Felix Peña, consultant)
UNCTAD/ECDC/TA/7	Non-tariff preferences and direct trade measures within a global system of trade preferences: measures and possibilities in the context of the Asian experience, with special reference to manufactures and semi-manufactures (study prepared by Mr. Shirang Purushottam Shukla, consultant)

F. Transnational enterprises

TD/B/C.7/29 and Add.1	Report of the Round Table on the Role of Transnational Enterprises in the Latin American Integration Process (Lima, Peru, 12-16 June 1978)
TAD/EI/SEM.5/2	The role of transnational enterprises in Latin American economic integration efforts–who integrates and with whom, how and for whose benefit? report prepared for the UNCTAD secretariat by Constantine V. Vaitsos (to be issued as a United Nations publication)
TAD/EI/SEM.5/3 and Corr.1	Transnational corporations and economic integration–the case for their control in the Andean Group: paper prepared for the UNCTAD secretariat by Ernesto Tironi
UNCTAD/ECDC/TA/4	Report of the Meeting of a High-level Group of Experts on Economic Co-operation among Developing Countries (Geneva, 6-10 November 1978)

DOCUMENT TD/244/SUPP.1

Economic co-operation among developing countries. Priority areas for action—supplementary material and considerations

Report by the UNCTAD secretariat

[*Original: English*]
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CONTENTS

TABLES

ANNEX

Introduction

1. In the implementation of its work programme on economic co-operation among developing countries, the UNCTAD secretariat has undertaken a number of studies in the various priority areas identified in resolution 1 (I) of the Committee on Economic Co-operation among Developing Countries.[1] These studies have provided the basis for the discussion of policy issues presented above.[2] While attention was drawn there to some of the major policy conclusions of these studies, it was not possible, owing to the limitation of space, to present an extensive discussion of the background considerations and material emerging from the studies and on which the policy conclusions are based. The present document presents in greater detail some of the background material and considerations relating to a number of these priority areas where it was considered that such material could be especially pertinent in providing a fuller understanding of the issues involved. The areas covered include monetary and financial co-operation, trade expansion and the global system of trade preferences, multinational marketing enterprises, and multinational production enterprises—all key priorities for which the discussion of policy issues provides the basis for the implementation of concrete measures. In addition, there is a discussion of some other measures for the strengthening of subregional, regional and interregional co-operation and integration not discussed above.

CHAPTER 1

Co-operation in the monetary and financial field

A. Feasibility of global payments arrangements among developing countries[3]

2. The question of a broad-based scheme of payments arrangements among the developing countries had been discussed, in general terms, in several important forums of the third world in recent years, though it has still not yet been fully explored from the technical point of view. Such a scheme would be feasible only if economic conditions, especially those associated with the patterns and trends of trade among developing countries, would support the expectation of significant financial flows among participating countries.

3. Several years ago, an UNCTAD group of experts undertook to classify the different payments arrangements according to certain major financial features, such as their economic objectives, the credit provisions involved and the degree of policy harmonization intended.[4] This group of experts came to the conclusion that there were three basic categories relevant to the developing countries, namely, clearing arrangements, credit arrangements and monetary unions. Furthermore, it concluded that a "simple payments union" and a "simple reserve fund" are merely variations of a basic credit agreement. This classification of payments arrangements is now widely accepted in technical discussions of the subject and is certainly helpful in identifying the issues involved in proposals for consolidation or linkages involving such arrangements.

4. The importance of this classification lies in the fact that, in principle, a global approach to linking clearing arrangements can be viewed as basically a technical question, whereas the combination of credit agreements of any kind involves rights and obligations of a basic policy nature, not to mention the highly political decisions required to merge national monetary systems into monetary unions. The establishment of some form of a "payments union" open to all developing countries is often mentioned as a tool for expanding trade and other current transactions among them, but it should be noted that such a mechanism would also involve major policy issues since it would, for instance, require prospective surplus countries to be prepared to accept incovertible balances in their international reserves.

5. Any discussion of the feasibility of a global approach to meaningful payments arrangements among the developing countries must necessarily focus on the subtle technical differences between those types of arrangement which involve an important credit element to be extended for fairly long—or, in a fully automatic payments union, indefinite—periods, and those which require only a moderate, convertible amount of interim credit. Moreover, since there is a substantial number of developing countries to deal with—approximately 120—it is essential to inquire, first of all, how far they have actually experienced monetary co-operation among themselves on a regional or subregional basis and are therefore prepared to undertake larger-scale commitments of the type required by a global approach.

1. *Present state of monetary co-operation among developing countries*

6. In the last five years the developing countries have displayed an intense activity concerning the establishment

[1] See *Official Records of the Trade and Development Board, Seventeenth Session, Supplement No. 2* (TD/B/652), annex I. For a list of the studies, see document TD/244, annex II, reproduced in the present volume.

[2] See document TD/244.

[3] This section is based largely on "Preliminary report on the feasibility of global payments arrangements among developing countries, prepared at the request of the UNCTAD secretariat by Mr. Jorge González del Valle" (TD/B/C.7/26).

[4] See *Payments arrangements among the developing countries for trade expansion: report of the Group of Experts* (United Nations publication, Sales No. 67.II.D.6), paras. 19-45.

and improvement of monetary co-operation arrangements of various kinds. Whereas in 1974 there were only two clearing arrangements and two credit agreements operating in Latin America, there are today seven clearing arrangements and five credit arrangements in operation, or in the process of implementation, in Asia, Africa and Latin America. On the other hand, the number of monetary unions—two in West and Central Africa—has remained unchanged.

7. The variety of monetary arrangements among developing countries has increased along with their number, and it is important to identify the nature of differences among them which could affect efforts to construct a global network of such arrangements.[5]

2. *Clearing arrangements*

8. There are at present seven clearing arrangements among developing countries: the Asian Clearing Union, the Caribbean Community's Multilateral Clearing Facility, the Central American Clearing House, the Great Lakes Economic Community's monetary arrangement, the Latin American Free Trade Association's Payments System and Reciprocal Credit Arrangements, the Regional Co-operation for Development's Union for Multilateral Payments Arrangements and the West African Clearing House. A total of 47 countries participate in such clearing arrangements on a subregional basis, which, except in the case of the Asian Clearing Union, are in turn linked to broader economic integration and trade liberalization agreements. Negotiations for a Central African payments arrangement involving five countries of the area are now under way. Another nine countries of eastern and southern Africa expect to establish a clearing and payments system in the context of a preferential trade area which may become effective in 1981. A listing of monetary arrangements among developing countries is given in table 1.

3. *Review of the characteristics of selected payments arrangements*[6]

(a) *West African Clearing House (CCAO)*

9. The Articles of Agreement of the West African Clearing House were signed on 14 March 1975 and it began its operations in July 1976. The membership of the West African Clearing House includes the Central Bank of West African States serving the six member countries of the West African Monetary Union (Benin, Ivory Coast, Niger, Senegal, Togo and Upper Volta), the Central Bank of the Gambia, the Bank of Ghana, the National Bank of Liberia, the Central Bank of Mali, the Central Bank of Nigeria and the Bank of Sierra Leone. The Central Bank of the Republic of Guinea joined the Clearing House in 1977.

10. The West African Clearing House's objectives are to promote the use of members' currencies for subregional trade and other transactions, to bring about economies in the use of the foreign reserves of its members, to encourage its members to liberalize trade among their respective countries, and to promote monetary co-operation and consultation among its members.

11. All current account transactions among participants are required to be channelled through the West African Clearing House. However, this does not apply to payments related to the re-exportation of finished products originating in a country whose central bank or monetary authority is not a member of Clearing House.[7]

12. The unit of account of the Clearing House is the West African unit of account (WAUA) which is equivalent to one special drawing right (SDR) of IMF. However, all payments channelled through the Clearing House must be in members' currencies. These payments are converted to WAUA only at the level of the central banks and the West African Clearing House.

13. Settlements are made monthly and, by mutual agreement between the respective participants, can be in any convertible currency. However, so far only the pound sterling, French franc and United States dollar have been used for settlements.

14. The limit of credit granted by a member is 20 per cent of the combined annual value of its imports (c.i.f.) from and exports (f.o.b.) to the other participating countries, subject to unilateral voluntary increases.

(b) *CEPGL monetary arrangement*

15. The Great Lakes Economic Community (CEPGL) was formally established on 20 September 1976 by the Governments of Burundi, Rwanda and Zaire in order to foster and expand reciprocal trade relations and to strengthen co-operation in the fields of production, finance, energy, transport, communications, tourism and social and cultural development.

16. Within the framework of that co-operation a Trade Agreement has been signed between the three countries. By article 4 of the Agreement, a clearing mechanism between central banks was established aimed at avoiding the transfer of convertible currencies during settlement periods. Every three months a clearing takes place and the balances are settled in convertible currencies. Other modalities, regulations and procedures of the clearing and payments arrangements are to be discussed and agreed.

17. An important element to be considered is the bilateral arrangements already existing between the central banks, members of the Community. Through bilateral accounts, payments for all kinds of goods, services and invisibles are registered in local currencies. Every three months a clearing takes place in each bilateral arrangement; balances are paid in convertible currencies.

18. Central banks intend to work out a suitable way to convert the bilateral mechanism into a multilateral scheme.

[5] See *Proceedings..., Fourth Session*, vol. III, *Basic documentation* (United Nations publication, Sales No. E.76.II.D.12), document TD/192/Supp.1, chap. III.

[6] For a review of the characteristics of the Asian Clearing Union, the Central American Clearing House and the LAFTA Payments system and Reciprocal Credit Arrangements, see TD/192/Supp.1. For a summary of the main characteristics of clearing systems among developing countries, see annex, table I below.

[7] Although it is not obligatory for intergovernmental grants, intergovernmental loans and other payments which do not fall within the IMF definition of current international transactions to be channelled through the Clearing House, they may be passed through the mechanism by mutual agreement between the contracting parties.

TABLE 1

Monetary arrangements among developing countries as of July 1978

Type of arrangement	*Official name of entity*		*Participating countries*
I. Clearing	1. Asian Clearing Union	(7)	Bangladesh, Burma, India, Iran, Nepal, Pakistan, Sri Lanka.
	2. CARICOM Multilateral Clearing Facility	(6)	Barbados, Belize, East Caribbean Currency Authority, Guyana, Jamaica, Trinidad and Tobago.
	3. Central American Clearing House	(5)	Costa Rica, El Salvador, Guatemala, Honduras, Nicaragua.
	4. CEPGL monetary arrangement	(3)	Burundi, Rwanda, Zaire.
	5. LAFTA Payments System and Reciprocal Credit Arrangements	(12)	Argentina, Bolivia, Brazil, Chile, Colombia, Dominican Republic, Ecuador, Mexico, Paraguay, Peru, Uruguay, Venezuela.
	6. West African Clearing House	(13)	Benin, Gambia, Ghana, Guinea, Ivory Coast, Liberia, Mali, Niger, Nigeria, Senegal, Sierra Leone, Togo, Upper Volta.
	7. RCD Union for Multilateral Payments Arrangements	(3)	Iran, Pakistan, Turkey.
II. Credit	1. Arab Monetary Fund	(20)	Algeria, Bahrain, Democratic Yemen, Egypt, Iraq, Jordan, Kuwait, Lebanon, Libyan Arab Jamahiriya, Mauritania, Morocco, Oman, Qatar, Saudi Arabia, Somalia, Sudan, Syrian Arab Republic, Tunisia, United Arab Emirates, Yemen.
	2. Andean Reserve Fund	(5)	Bolivia, Colombia, Ecuador, Peru, Venezuela.
	3. ASEAN swap arrangement	(5)	Indonesia, Malaysia, Philippines, Singapore, Thailand.
	4. Central American Monetary Stabilization Fund	(5)	Costa Rica, El Salvador, Guatemala, Honduras, Nicaragua.
	5. LAFTA Financial Assistance Agreement	(12)	Argentina, Bolivia, Brazil, Chile, Colombia, Dominican Republic, Ecuador, Mexico, Paraguay, Peru, Uruguay, Venezuela.
III. Monetary union	1. Central African Monetary Union	(4)	Central African Empire, Congo, Gabon, United Republic of Cameroon.
	2. West African Monetary Union	(6)	Benin, Ivory Coast, Niger, Senegal, Togo, Upper Volta.

(c) *RCD Union for Multilateral Payments Arrangements*

19. The Agreement establishing the RCD Union for Multilateral Payments Arrangements was signed by the Governments of Iran, Pakistan and Turkey on 25 April 1967. Its objective is "to provide for a continually increasing expansion of intraregional trade" within the RCD region. The provisions of the Agreement are subject to the commercial, customs, exchange control and other laws and regulations of the member countries.

20. Intraregional trade transactions, with the exception of invisible payments, border trade and payments for raw materials, are eligible for clearing through the RCD payments arrangements.

21. Under the Agreement, "each member Government shall extend credit up to $US 2 million to each of the other two member Governments". This credit limit can be revised by mutual agreement. All the transactions channelled through the RCD payments arrangements must be in dollars; however, exporters are to be paid in their respective national currencies.

22. According to article 4 of the Agreement, "for the purpose of keeping record of transactions, the central bank of each member country shall open an account, to be kept in United States dollars, in the name of each of the Central Banks of the other two member countries. These accounts shall be interest free and exempt from bank charges".

23. The accounting period begins on 1 July and ends on 30 June. The settlement of the outstanding balances of the accounts of the three member countries are made on 30 June of each year and are compensated against each other in the accounts of the three central banks.

(d) *CARICOM Multilateral Clearing Facility*

24. The CARICOM Multilateral Clearing Facility was established on 16 June 1977 by the central banks and other monetary authorities of the Caribbean Community for the purpose of making payments among their respective countries and territories on a multilateral basis. The participants include Barbados, Belize, the Eastern Caribbean Currency Authority (ECCA), Guyana, Jamaica, and Trinidad and Tobago.

25. The major aims of the Clearing Facility are: to facilitate settlement, on a multilateral basis, of payments of eligible transactions among the participating countries and territories; to promote the use of the participants' currencies; and to promote monetary co-operation among the participants and thereby contribute to the expansion of trade and economic activity in the CARICOM region.

26. The payments eligible for settlement through the Clearing Facility include all purchases and sales of CARICOM currencies by the commercial banks covering transactions approved by each participant, and payments relating to such other transactions as may be approved. In addition, the following transactions may be included by mutual agreement between the participants for clearing through the Facility: intergovernmental grants, intergovernmental loans, and other governmental payments.

27. The unit of account of the CARICOM Multilateral Clearing Facility is the United States dollar. However, all transactions are expressed both in the currency of the participant making the payment and in dollars.

28. The settlement periods end on 15 March, 15 June, 15 September and 15 December of each year. However, each participant is notified regarding its net position and accrued interest at the close of business on each Wednesday. If a participant's net creditor position exceeds the limit extended to the Facility under article IV of the Agreement, it shall have the right to make a request for an immediate settlement of the excess amount. The lines of credit agreed upon by the participants under article IV are as follows:

Participant	*Amount extended to Facility*	*Amount extended by Facility*
	(Millions of dollars)	
Barbados	5.0	5.5
Belize	2.5	5.0
ECCA	5.0	5.5
Guyana	6.5	8.5
Jamaica	6.0	9.5
Trinidad and Tobago	15.0	6.0
TOTAL	40.0	40.0

4. *Credit arrangements*

29. Up to now, developing countries have established five multilateral credit arrangements among themselves: the Arab Monetary Fund, the Andean Reserve Fund, the ASEAN swap arrangement, the Central American Monetary Stabilization Fund and the LAFTA Financial Assistance Agreement (Santo Domingo Agreement). In all, 47 developing countries participate in these arrangements (see table 1).

30. Although these credit arrangements pursue different objectives in line with the specific interests of the participating countries, a common denominator appears to be the intention to supplement the balance-of-payments financing provided by IMF and thereby to avoid restrictions on convertibility and exchange rate instability. Except in the case of the ASEAN swap arrangement, the existing credit agreements explicitly link such balance-of-payments support to the broader economic integration and trade expansion objectives of the subregional groups concerned. Moreover, the LAFTA credit facility is designed to supplement the interim finance contemplated in the Association's clearing system rather than to provide balance-of-payments support in general.

31. These credit agreements do not fall into the category of conventional "payments unions" because access to credit is neither automatic nor measured in terms of exclusively intraregional imbalances.[8] In all five credit agreements the basic condition for activating the borrowing rights of a member in the existence of a global balance of payments need, and this is precisely the condition required by IMF for the use of its resources (except for a relatively modest amount of automatic drawings). It is therefore safe to conclude that such credit agreements fall into the category of a conventional "reserve fund" in which conditional financing subject to repayment in convertible reserve assets is the outstanding technical feature.

32. In connexion with their role as a supplement to IMF, it must be noted that the Arab Monetary Fund, the Andean Reserve Fund and the Central American Monetary Stabilization Fund have adopted lending policies which to a great extent resemble the IMF *tranche* policies for conditionality purposes. In this sense, after a member has exhausted its automatic drawing rights—which are measures basically as a proportion of the member's subscription—the conditions for the adoption of corrective stabilization policies are geared directly to the increase in the amount of credit used. Moreover, the member's policy performance is subject to the surveillance of the agreement's executive board thus allowing the other members to exert an influence on the national economic policies in the context of the collective interests.

33. In addition to conditionality, another basic common feature of the existing credit arrangements is the requirement for strict convertibility of the claims against borrowing participants. Since lending is done in international reserve assets, debtors are expected to repay in the same currencies. Moreover, the question of exchange rate variations in the national currencies of the participants does not arise. In the case of the three Latin American credit arrangements, operations are made directly in United States dollars. In the Arab Monetary Fund they are denominated in the Agreement's unit of account, the Arab dinar, which is equivalent to SDR 3.

34. The ASEAN swap arrangement is a different category of credit agreement. Although its scope is still limited, it may be considered as the first step towards broader and more substantial monetary co-operation among the ASEAN countries. It provides for near automatic drawings by a member of up to twice the amount of its own commitment to the other members taken together. The maturity of those drawings is limited to one year. In spite of such limitations, the swap arrangement may be helpful to members which face short-term and reversible difficulties in their balance of payments. Moreover, there is apparently no time limitation as regards the possibility of refinancing by means of the renewal of loans, and hence it could amount to a medium-term facility for balance-of-payments support.

35. Taken together, the five existing agreements contemplate balance-of-payments credits which amount to approximately 1,700 million. Even though this is a very

[8] See *Payments Arrangements among the Developing Countries...*, paras. 30-33 and 53-58. It must be noted, however, that the RCD Union for Multilateral Payments Arrangements contemplates automatic credits up to 50 per cent of outstanding balances at the end of the clearing settlement period of one year for up to another year; but final settlement must be carried out in convertible currencies.

modest amount when compared to the aggregate reserves of the 47 participating countries, it must be noted that from the viewpoint of potential users–i.e., the members with no reserve levels and vulnerable balances of payments–such resources may indeed represent a significant addition to the availability of IMF credit, especially as regards the more liberal margins of automatic drawings and repayment requirements.

36. Although the existing credit agreements among developing countries, as noted above, are not payments unions of the conventional type, they do indirectly support trade expansion by helping such countries to avoid the need for competitive devaluations, exchange controls or quantitative restrictions for balance-of-payments reasons. By supplementing IMF in this endeavour, subregional credit arrangements facilitate the international flow of goods, services and capital. This is of particular interest to the developing countries which, while being engaged in economic integration programmes, are at the same time liable to face difficulties in the management of the adjustment process of their external sectors.

5. *Approaches to global monetary co-operation among developing countries*

37. The idea of a global payments union of the conventional type would appear to be feasible if a mechanism to avoid the accumulation of inconvertible currencies could be worked out. One way to avoid accumulation of inconvertible currencies would be to ensure a medium-term equilibrium among all participants with regard to their reciprocal trade balances. Alternatively, credit ceilings could be established. In either event, however, the solution would have the effect of limiting the extent to which the objective of expanding trade among developing countries can be attained.

38. It is due to the above-mentioned difficulties that several payments union schemes which were proposed in the past did not succeed. It may be expected that these obstacles and problems would be compounded in a scheme for a global payments union, since the commercial patterns and trends tend to be more uncertain as the number and variety of economic systems increase.

39. It would therefore appear that the outlook for stronger and wider monetary co-operation among developing countries must be based on those types of multilateral arrangements which, without initially producing spectacular results, have been or are being tested in actual practice and entail acceptable levels of financial and political commitment. Moreover, as indicated earlier, most of the existing monetary arrangements are quite new and hence there may be need to gain more experience with existing schemes before embarking on more ambitious proposals.

40. A number of considerations will need to be borne in mind in any initial attempt to link or combine different subregional schemes of monetary co-operation. First, the process of eliminating or minimizing the discrepancies in technical and operational features should emphasize those aspects which are really important, without attempting to achieve full uniformity in all details. Secondly, resort to special institutional arrangements should be avoided and a more flexible and informal procedure of multilateral co-ordination at the technical level established instead. Thirdly, negotiations on specific financial questions which require political decisions should be undertaken only after a basic agreement on the operational rules has been reached. These conditions can be satisfactorily met if a gradual approach to the question of links and combinations is followed.

41. There are many reasons to believe that the existing clearing arrangements lend themselves to the implementation of that approach. As was pointed out earlier, 47 countries are already participating in seven clearing arrangements, and another 34–including the 20 members of the Arab Monetary Fund–are expected to join in three separate arrangements in the next few years. It is therefore conceivable that some kind of network linking these 81 countries could be eventually worked out. Although the extent of the contribution of such links to the expansion of trade among the participating countries has still to be determined, there is no doubt about the possibilities of further financial co-operation once the basic scheme proves to be effective and useful.

42. It will be recalled that there is a high degreee of coincidence among the existing clearing arrangements, especially as regards the basic technical conditions of the maintenance of the value of claims, the convertibility of net balances and the limitation of automatic interim finance (see paras. 8-28). This could be the starting-point of the harmonization of clearing arrangements, although the question of a standard unit of account specifically designed to preserve the equivalent value of settlements between two arrangements using different reserve assets as their own units of account–basically the United States dollar and the special drawing right—would have to be discussed at an early stage. The harmonization of other technical features of lesser economic importance need not be undertaken immediately, though the question of the frequency of intra-arrangement settlements, which is essential for operational purposes, would need to be decided early.

43. Since a gradual approach to linking the clearing arrangements also means that progress can be achieved by stages, it would be advisable to avoid the temptation to start with a network encompassing all existing arrangements and to concentrate instead on the interconnexion of those arrangements in which actual or potential trade partners already participate. On the basis of recent international trade figures (see table 2), it would seem logical to encourage the early establishment of links in at least four combinations: (*a*) the Central American Clearing House with the LAFTA Payments System and Reciprocal Credit Arrangements; (*b*) the LAFTA Payments System and Reciprocal Credit Arrangements with the CARICOM Multilateral Clearing Facility; (*c*) the LAFTA Payments System and Reciprocal Credit Arrangements with the West African Clearing House; and (*d*) the Asian Clearing Union with the RCD Union for Multilateral Payments Arrangements. In the following stage, subject to the confirmation of present tendencies and to in-depth studies and preparation, it could well be possible to promote three basic additional links: (*e*) the Asian Clearing Union with the projected eastern and southern Africa clearing system; (*f*) the CEPGL monetary arrangement with the proposed Central African payments arrangement; and (*g*) the Asian Clearing Union with the projected clearing system among the members of the Arab Monetary Fund.

44. Detailed country statistics show that trade has increased significantly among developing countries of different geographical areas, even after oil exports are excluded. For instance, Argentina, Brazil and Mexico taken together increased their exports to developing countries outside Latin America (including oil-exporting countries) from \$201 million in 1970 to \$1,136 million in 1976. Similarly, the combined exports of India, Pakistan and Bangladesh to developing countries outside Asia increased from \$461 million to \$1,800 million in the same period. These figures show that there already exist important economic transactions among developing countries which support the establishment of links between subregional clearing arrangements.[9]

45. The technicians of existing clearing arrangements are already acquainted with the different ways in which a link between two separate subregional schemes can be achieved. However, it may be useful to indicate that the actual operation of the link can be very simple once the parties concerned have reached agreement on the basic rules. First, the transactions eligible for clearing would be recorded in special accounts by the fiscal agents of each multilateral arrangement. Secondly, the amount of net positions between each pair of clearing arrangements would be calculated exclusively by the two fiscal agents concerned at the agreed settlement dates. Thirdly, the transfer of funds would take place, through the local or foreign banks named by the recipient fiscal agent, in the international currency agreed upon. Fourthly, the records concerning transactions cleared, interest charges, claims, rejected items, finanacial adjustments, etc., would be handled by the fiscal agent of each clearing arrangement, provided that the participants concerned were kept fully informed.

46. Moreover, it should be noted that links between certain countries or groups of countries can be established without necessarily involving the formal interconnexion of two multilateral clearing arrangements, although it would be desirable that such links eventually lead to the latter. For instance, in Latin America two members of the LAFTA Payments System and Reciprocal Credit Arrangements have entered into separate arrangements with the Central American Clearing House on the basis of their relatively closer economic ties. This provides a certain flexibility to attain specific objectives which may not be of immediate interest to other parties to closed clearing arrangements.

6. *Procedures for multinational co-ordination*

47. A working group on multilateral payments arrangements among developing countries, sponsored by UNCTAD and made up of the executive officers of existing monetary arrangements, met at the Central Bank of Venezuela at Caracas in July 1977. The main purpose of the meeting was to have an exchange of information and views concerning the technical features of the different clearing and credit arrangements and to consider possible ways of improving them. However, the Working Group decided to make a formal recommendation for the establishment of a co-ordination committee composed of official representatives of such arrangements. The secretariat of UNCTAD was asked to convene the first meeting of the co-ordination committee.

48. The Co-ordination Committee on Multilateral Payments Arrangements and Monetary Co-operation among Developing Countries held its first meeting in Bangkok in July 1978, the major outcome being the adoption of its rules of procedure, which among other things contemplate a number of functions concerning the consideration of ways and means to improve existing monetary arrangements, to assist emerging multilateral arrangements and to establish links among such arrangements.[10] UNCTAD was requested to provide the technical secretariat of the Co-ordination Committee for an initial period of two years.

49. This informal and practical way to begin permanent co-ordination of the external relations of existing multilateral arrangements has the important advantage of bringing together the official representatives of the entities concerned to explore a wide range of issues of common interest without necessarily requiring immediate political decisions from the countries which participate in such entities. As noted earlier, this is the kind of flexibility which may allow for appropriate guidance and implementation of the gradual approach to global monetary co-operation among developing countries. It should also be noted that the central bank authorities of most countries have had long experience in handling matters of common concern in frequent informal discussions.

50. Eventually it would be necessary to undertake negotiations to try and reach agreement in some important areas, and the same Co-ordination Committee could be the appropriate forum to prepare the ground for such negotiations. All multilateral arrangements existing in developing areas are members of this Committee, and the experience gained by them provides a good technical background for the discussion of relevant issues related to the co-ordination of arrangements and their linkage.

B. Financing of trade among developing countries

1. *The need for a financing facility*

51. In the field of monetary co-operation, several institutions and mechanisms have been set up which, among their other functions, provide financing for foreign trade and/or balance-of-payments deficits as a support measure to facilitate trade among member countries of the respective region or grouping.

52. These efforts are particularly noteworthy in the Latin American region, where a number of institutions and mechanisms have been established in order to facilitate trade among the countries members of various regional groupings.

53. Recently, the Islamic Development Bank has introduced a foreign trade financing programme for its members. Furthermore, the Arab Monetary Fund is to provide financing for balance-of-payments deficits of its member countries.

54. While the above institutions and mechanisms are very useful for facilitating trade among developing

[9] For a fuller discussion of trends in trade among developing countries, see chap. II..

[10] See the report of the Co-ordination Committee (UNCTAD/ECDC/14), annex IV.

TABLE 2

Trade among developing countries, including oil-exporting countries, 1970 and 1976[a]

(Millions of dollars)

Exporting area	*Oil-exporting countries*	*Other western hemisphere*	*Other Middle East*	*Other Asia*	*Other Africa*	*Total*
	Importing area					
1970						
Oil-exporting countries	91	1 480	273	1 054	193	3 091
Other western hemisphere	105	1 762	55	175	41	2 138
Other Middle East	177	15	121	155	83	551
Other Asia	489	161	175	2 738	312	3 875
Other Africa	109	38	64	235	662	1 108
TOTAL	971	3 456	688	4 357	1 291	10 763
1976						
Oil-exporting countries	1 029	12 789	1 145	8 966	1 717	25 646
Other western Hemisphere	1 119	6 167	300	319	424	8 329
Other Middle East	1 229	107	365	478	119	2 298
Other Asia	4 021	624	673	9 007	1 022	15 347
Other Africa	307	498	172	363	1 007	2 347
TOTAL	7 705	20 185	2 655	19 133	4 289	53 967

Source: IMF, *Direction of Trade* (Washington, D.C.).

[a] Figures are those of exports, f.o.b.

countries in the various regions, it should be borne in mind that their objectives and functions are numerous and are not particularly or exclusively aimed at providing financing for the expansion of trade. Also, the volume of financial resources available to these institutions is modest. In addition, many developing countries, particularly those in Africa and Asia, do not have access to such resources.

55. It is clear that in view of the scope, objectives and financial resources available to these institutions, they cannot provide for the financing of trade expansion among developing countries as a whole. There therefore remains an urgent need for such a mechanism.

56. The importance of adequate financing facilities cannot be overemphasized, since the extent of credit availability will largely determine the pace at which trade expansion among developing countries can proceed, in particular because transitional imbalances are bound to arise in the initial stages of trade liberalization. It should also be borne in mind that the type of credit extended by developed countries has been a major contributing factor to the strengthening of "North-South" trade links. The ability of developing countries to move away from this trading pattern and to engage in more meaningful trade among themselves will depend in large measure on the availability of adequate and appropriate credit facilities to support increased exchange among them, and a financing facility geared to support trade expansion among developing countries over which developing countries themselves have decision-making powers could play a vital role in this respect. The establishment of such a financing facility involves many complex technical and political issues, and a careful evaluation of such a proposal would require a good deal of study and consideration. What is important at this stage is recognizing the need for a financing facility whose primary function would be the provision of short-term and medium-term financing to all developing countries determined to increase trade flows among themselves in their attempt to achieve their stated goal of collective self-reliance.[11]

2. *Trade financing schemes already established*

(a) *Latin American Export Bank*

57. The Latin American Export Bank was established on 14 May 1975. Its main objectives are: (*a*) to establish a Latin American system of export credits for goods and services, providing pre-shipment and post-shipment financing at the prevailing international markets' interest rates; (*b*) to promote the development of a financial market for Latin American banking acceptances; (*c*) to foster the establishment of a Latin American system of export credit insurance and appropriate mechanisms to complement existing national schemes; (*d*) to collaborate with member countries in research studies aimed at export promotion.

[11] The financing facility being discussed here should be distinguished from the proposal for an export credit guarantee facility put forward by the UNCTAD secretariat in response to resolution 11 (VII) of the Committee on Invisibles and Financing Related to Trade (for details concerning this proposal, see "An export credit guarantee facility—Part I, Main policy issues: report by the UNCTAD secretariat" (TD/B/739 (Part I)). The basic purpose of the export credit guarantee facility, a guarantee scheme, is to help promote developing countries' exports, particularly of equipment, to all countries by enhancing the marketability of their export credit paper. In contrast, the facility discussed in the above paragraph is of broader scope and responds to the more specific need for facilitating the expansion of trade among developing countries.

58. The Bank's capital is $99 million, divided into 99,000 shares of $1,000 each. The shares are owned in equal proportion by three classes of shareholders: class A, central banks; class B, Latin American commercial banks and other financial institutions; and class C, international banks. The Bank's paid-in capital is $25 million. The funding for lending operations will be provided by interbank deposits. It will also have direct lines of credit available from banks, not exceeding $15 million from any one lender. The maximum credit to each borrower will be $10 million.

(b) *Islamic Development Bank*

59. The Islamic Development Bank was established on 20 October 1975. The objective of the Bank is "to foster economic development and social progress of member countries and Muslim Communities individually as well as jointly in accordance with the principles of the Shari'ah" (see the Islamic Development Bank's purpose, functions and powers).[12] Only members of the Organization of the Islamic Conference are eligible to become members of the Islamic Development Bank. At present, 32 countries have become members.[13]

60. In addition to a number of other functions, the Bank is to assist in the promotion of foreign trade, especially in capital goods, among member countries. In this respect, the Islamic Development Bank has provided immediate foreign exchange to member countries which are in need of imported inputs or have exportable surpluses. The financing operations so far undertaken by the Bank cover purchases of industrial raw materials, fertilizers and petroleum products.

61. Between October 1976, when the Bank started its financing operations, and the end of December 1977, the Islamic Development Bank allocated nearly $51 million to foreign trade financing of the developing countries members of the Organization of the Islamic Conference.

(c) *Andean Development Corporation (ADC)*

62. The Andean Development Corporation is a subregional financial institution composed of Bolivia, Colombia, Ecuador, Peru and Venezuela. It was established in 1968 and commenced its operations on 8 June 1970. Its main objectives are to promote and identify development projects of subregional financial co-operation and technical assistance among member countries and to mobilize financial resources within and outside the subregion to support Andean integration. Within the framework of its general objectives, the Andean trade financing system has been set up to promote subregional integration, through the expansion and diversification of trade between member countries. The objectives of the system are: (*a*) to allow the Andean countries' exporters to compete with exports from countries outside the subregion, and (*b*) to complement the efforts of national mechanisms established to finance non-traditional exporters.

63. Normally the Andean trade financing system extends credit to the importer to finance commercial transactions within the Andean subregion and the exporters therefore receive payment immediately. It can also extend credit to the exporters of the member countries for trade operations within and outside the subregion.

64. The system is designed to finance exclusively non-traditional exports. Eligible goods are: consumer goods and raw materials; durable and semi-durable goods; capital goods; industrial equipment; services linked to exports; such as engineering services; consultancy services and technical assistance services, when provided by national enterprises belonging to member countries of the Andean Group.

65. The system's funds are made available from the following sources: lines of credit furnished by countries of the subregion, resources belonging to ADC, and other funds that can be raised.

66. The minimum amount for each operation is $10,000. The system normally finances post-shipment operations, though in exceptional cases pre-shipment transactions can also be financed. The terms for repayment of commercial credit are: short-term, up to one year; medium-term, up to five years; long-term, up to 15 years.

67. For long-term operations, up to 90 per cent of the value of the transactions may be financed; for medium-term and short-term, up to 85 per cent; and for exports from Bolivia and Ecuador, up to 100 per cent. All operations are denominated and paid in dollars.

(d) *Export financing operations of the Inter-American Development Bank*

68. In addition to the export financing made available by the above-mentioned institutions, the Inter-American Development Bank allocated 2 per cent of its lending to export financing operations for the Latin American member countries of the Bank during the period 1961-1976.[14] The Inter-American Development Bank is the first regional financial institution of developing countries to have established an export financing scheme for its member countries.

CHAPTER II

Trade expansion and the global system of trade preferences among developing countries

A. Trends in trade among developing countries[15]

69. Trade among developing countries amounted in 1977 to $65 billion. The small share (5.7 per cent) of this trade in total world trade falls clearly short of its potentialities and its possible future scope for further development.

70. On the whole, developing countries' trade patterns are still heavily dependent on trade with developed countries. Developing countries direct 72 per cent of their exports towards developed market-economy countries and 6 per cent to socialist countries, while the share of trade

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[12] Islamic Development Bank, *Articles of Agreement*, chap. 1.

[13] Islamic Development Bank, *Second Annual Report*, 1397H (1976/77).

[14] See Inter-American Development Bank, *Annual Report, 1976* (Washington, D.C.).

[15] See also "Trade among developing countries by main SITC groups and by regions: statistical note by the UNCTAD secretariat" (TD/B/C.7/21).

among developing countries is only 22 per cent. Developed countries show exactly the opposite trade pattern: in 1977, trade among developed countries amounted to 71 per cent of their total trade, while the share of exports to developing countries constituted 24 per cent. In absolute size, developed countries' exports to developing countries equalled two and a half times the total trade among developing countries.

71. Nevertheless, both the growth and the pattern of trade among developing countries have undergone substantial changes in the recent past. Since the early 1970s trade among developing countries has gained new dynamics. Before that turning point, it had for a long period grown much more slowly than world trade, but this trend has now clearly been reversed.

72. As shown in table 3, interregional trade among developing countries has been a major factor in the acceleration in trade among developing countries. It grew from its earlier modest share to about one half of the total: in 1977, interregional trade amounted to $33 billion and regional trade to $32 billion.[16]

73. In this over-all climate of rapid trade expansion, the commodity pattern of trade among developing countries has undergone substantial changes. In all areas, trade among developing countries, whether in commodities, fuel or manufactures, grew much faster than their trade with developed countries. An important part of the increase in the value of intra-trade among developing countries was due to fuels. Particularly strong growth was, however, registered in trade in manufactures. Interregional trade in such products increased almost sevenfold during the period 1970-1976; in comparison, developing countries' exports of manufactures to developed countries rose about threefold during this period.

74. As a result of these developments, fuel has now become the main commodity entering into trade among developing countries, accounting for about 55 per cent of the total of such trade; at the same time, manufactured products have surpassed in importance other basic commodities in developing countries' intra-trade, their respective shares being 25 and 20 per cent in 1976.

75. Annex table 2 shows the direction of trade by main regions for 115 developing countries for which detailed figures were available for 1975. For the large majority of them, trade with other developing countries already represents a significant share of their total world trade. For 80 per cent of the countries, exports to other developing countries constituted in 1975 more than 10 per cent of their total exports. For half of them this share exceed 20 per cent. In countries that have been members of preferential arrangements within their respective integration groupings over a long period, intragrouping trade accounts for a large share of their total trade with developing countries. This is particularly the case of the member countries of Latin American integration groupings and of certain member States of long-standing African groupings.

76. Several developing countries also show significant interregional trade flows. For 60 per cent of the developing countries covered, interregional exports towards other developing countries exceed $10 million. For about half of the developing countries, interregional exports already represent more than 5 per cent of their total exports. These countries cover a wide range belonging to all geographical regions and include some petroleum-exporting countries, most developing countries with an important share of industrial exports, a number of medium-sized (largely primary exporting) developing countries and a few least developed countries.

77. For the majority of developing countries, regional trade flows outside the various existing and emerging economic integration and co-operation groupings of developing countries exceed or equal in importance their interregional trade.

78. For the 115 developing countries covered, interregional exports amounted in 1975 to $21 billion, or 11 per cent of their total exports. Regional trade outside established and new subregional and regional groupings amounted to $13 billion (7 per cent). Excluding fuel, trade among developing countries outside such groupings can be estimated at $14 billion. These figures give an indication of the already existing base for an expansion of trade inspired by a global system of trade preferences.

79. Prospects for the future growth of trade among developing countries are continuously improving as a result of an improved production base, rapid diversification and successful drives for the expansion of exports in a number of developing countries. A number of developing countries have been able to substantially expand their import capacities and provide new interesting and dynamic markets.

80. If the Lima target for industrial development is to be attained,[17] developing countries will need to achieve a substantial concomitant expansion of their markets for the new industrial production. This would require the development of all sectors of their export trade, including substantial development of trade with other developing countries, and a stronger emphasis on increased interregional trade, which has been somewhat neglected in the past. Trading arrangements with other developing countries permitting the joining of market potentials would substantially reduce financial requirements of investments and hence costs of production. Much of the new production is likely to occur in relatively new industries of developing countries, such as intermediate and capital goods, which are frequently capital-intensive, sensitive to market size, to technological capabilities, and to the degree of capacity utilization, and may require a relatively long take-off period before they could become fully competitive on the international market on a large scale.

81. An additional need for the accelerated development of trade among developing countries lies in the sluggish growth performance of developed countries and the rather moderate prospects for these markets in the medium run. Market prospects of developing countries have been further severely curtailed by the increased tendency of developed countries to react to diminished growth with increased

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[16] Regional trade refers here to trade among developing countries within each of the major geographical regions, while interregional trade refers to trade between these regions.

[17] 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 (ID/CONF.3/31, chap. IV).

TABLE 3

Exports of developing countries by destination and commodity groups, 1976

Commodity groups and SITC categories \ Destination	Value									Index of value (1970 = 100)				
	World (in billions of dollars)	Developed countries (in billions of dollars)	Percentage	Developing countries (in billions of dollars)	Percentage	Inter-regional (in billions of dollars)	Percentage	Regional (in billions of dollars)	Percentage	World	Developed countries	Developing countries	Inter-regional	Regional
All commodities (0-9)	254.6	181.5	100	58.2	100	29.9	100	28.3	100	463	449	536	960	366
Fuel (3)	150.2	112.3	62	31.8	55	21.5	72	10.2	36	830	792	850	1 596	428
Trade excl. fuel	104.4	69.2	38	26.4	45	8.4	28	18.1	64	283	264	372	472	338
Commodities (0 + 1 + 2 + 4)	56.4	37.8	21	11.5	20	3.6	12	7.9	28	241	223	325	388	303
Manufactures (5.9)	48.0	30.9	17	14.9	25	4.8	16	10.1	36	356	336	496	676	441

Source: United Nations, *Statistical Yearbook 1977* (United Nations publication, Sales No. 78.XVII.1).

protectionism and resistance to the adoption of the necessary structural adjustment measures which would contribute to an improvement of future growth prospects for the world economy and world trade as a whole.

82. Certain trends currently prevailing in the developing countries themselves support the view that there is scope for a more rapid development of trade among developing countries than in the past. Recent over-all economic growth in developing countries has been much faster than in developed countries. During 1970-1976 the average annual growth rate of total gross domestic product in developing countries was 5.3 per cent, compared to 3.0 per cent in developed countries. Production potentials and in particular industrial production have been rapidly developed: during 1970-1976 the industrial production of developing countries rose by 54 per cent, compared to 21 per cent in developed countries. Production patterns have been substantially diversified and it is likely that the present drive to industrialization in developing countries will translate itself in the medium run into further increased export efforts and potential new export flows.

83. Similar trends prevail for trade in agricultural products and other commodities. Population increases in developing countries, the present low level of *per capita* consumption of essential food products, and the growth of raw material requirements induced by accelerated industrialization, also point to a substantial future potential for increased trade among developing countries in this sector.

B. Experiences with preferential arrangements of developing countries members of economic integration and co-operation groupings[18]

1. *Development of trade within subregional and regional groupings among developing countries*

84. Many developing countries have participated over relatively long periods as members of economic integration groupings which have involved far-reaching commitments with respect to mutual trade liberalization. Thus, about 50 countries have acquired substantial experience with the operation of mutual trade preferences as members of the traditional subregional or regional integration groupings of the Latin American Free Trade Association (LAFTA), the Andean Group, the Central American Common Market (CACM), the Caribbean Community (CARICOM), the Central African Customs and Economic Union (UDEAC), the West African Economic Community (CEAO), the now dissolved East African Community and the Arab Common Market. The experience of these groupings and their evolution over the period of their existence can provide major insights for the evaluation of appropriate conceptual approaches, measures, and negotiating techniques that may be devised for a global system of trade preferences among developing countries.

85. In the recent past the movement towards subregional and regional co-operation and integration schemes among developing countries has gained further dynamics. Newly created integration and co-operation schemes in Africa have brought about the implementation of new trade preferences within the Mano River Union (MARIUN) and the Economic Community of the Great Lakes (CEPGL); the Economic Community of West African States (ECOWAS) is preparing for the implementation of its trade liberalization programme, and the establishment of east and southern African preferential trading agreements has been decided upon in principle. In Asia, mutual trade preferential arrangements on a subregional scale have for the first time been implemented within the Bangkok Agreement and the Association of South-East Asian Nations (ASEAN) in the very recent past.

86. The total number of developing countries either participating in existing schemes or having embarked on preferential negotiations within new schemes among developing countries is about 90, and represents the large majority of them. In comparison, the interregional preference schemes of developing countries under the Trade Expansion and Economic Co-operation Agreement between Egypt, India and Yugoslavia and the preferential arrangements created under the Protocol related to Trade Negotiations among Developing Countries[19] have still a limited coverage. Most developing member countries of these interregional preferential arrangements are also members of existing or emerging regional or subregional arrangements.[20]

87. Within most of the traditional subregional and regional groupings with long-standing preferential experience and far-reaching trade liberalization commitments, intra-trade has substantially increased since their creation (see table 4).

88. Intra-grouping trade of LAFTA increased from about $600 million in 1960 to $5.5 billion in 1977, which represents an increase of the share of LAFTA exports in total exports of the member countries from 7.7 per cent to 13.4 per cent.

89. Subregional trade and its share in total exports also showed vigorous growth in the Andean Group. From 1969 to 1974 mutual trade increased from $90 million to almost $500 million and the share of intra-trade from 3 per cent to 7.1 per cent (excluding Venezuela). Between 1975 and 1977 intra-Andean trade, excluding Chile, which ceased to be a member in 1976, and including Venezuela, rose from $470 million to $800 million, or from 3.6 per cent to 5.1 per cent.

90. Central American efforts to intensify intra-trade showed significant results over a long period. During the

[18] See also: "Preferential trade measures within the integration and co-operation schemes in the regions of ESCAP and ECWA: study prepared at the request of the UNCTAD secretariat by Mr. Fasih Uddin" (TD/B/C.7/79); "Review of experience with preferential measures in the context of Latin American integration schemes, in order to derive suggestions for a global system of trade preferences among developing countries: study prepared at the request of the UNCTAD secretariat by Mr. Felix Peña" (TD/B/C.7/22); "The trade preferences of the African economic co-operation and integration groupings: study prepared at the request of the UNCTAD secretariat by Mr. Melchiade Yadi" (TD/B/C.7/32).

[19] Signed at Geneva on 8 December 1971. See GATT, *Basic Instruments and Selected Documents, Eighteenth Supplement* (Sales No. GATT 1972-1), p. 11.

[20] In addition, developing countries have preferential experience through their participation in Commonwealth preference arrangements, the Lomé Convention, and the generalized system of preferences, as well as through their bilateral agreements.

TABLE 4

Intra-trade of economic groupings of developing countries, selected years

Regional grouping	*Value of intra-trade (millions of dollars)*					*Exports to developing countries as a percentage of total group exports*					*Intra-trade of group as a percentage of total exports of each group*				
	1960	*1970*	*1972*	*1974*	*1976*	*1960*	*1970*	*1972*	*1974*	*1976*	*1960*	*1970*	*1972*	*1974*	*1976*
A. *Groupings which extended and implemented mutual trade preferences before 1970*															
LAFTA[a]	564	1 290	1 760	3 360	4 583	10.4[b]	14.9[b]	16.8[b]	17.2[b]	18.5[b]	7.7	10.2	11.6	9.7	13.5
of which:															
Andean Group[c]	25	109	139	478	710	9.9[b]	10.4[b]	13.9[b]	15.5[b]	17.1[b]	0.7	2.0	2.5	3.2	5.0
CACM[d]	33	299	307	525	609	10.02	29.6	26.9	33.6	29.1	7.5	26.8	22.7	24.8	20.2
CARICOM[e]	27	73	125	229	265	12.2	16.6	18.6	19.5	17.4	4.7	7.3	11.1	7.9	8.3
ACM[f]	48	86	74	121	175	16.1	18.4	20.1	21.7	22.6	3.5	4.08	3.1	1.4	1.5
UDEAC[g]	3	33	48	..	75	3.3	21.5	19.1	..	..	1.6	7.5	8.8	..	3.9
CEAO[h]	6	73	82	169	190	14.8	15.1	16.2	17.1	13.8*	2.0	9.1	8.3	8.1	6.1*
TOTAL A	681	1 854	2 396	4 404	5 897	11.3	16.5	18.0	18.9	19.4	6.7	10.5	11.5	8.9	10.4
B. *Other groupings*[i]															
ASEAN[j]	839[k]	860[k]	1 080[k]	2 818[k]	2 961[k]	32.8	31.7	31.5	31.2	30.3	21.7	14.7	14.5	12.8	11.2
RCD[l]	36	43	38	165	173	22.5	18.6	14.0	17.6	18.6	2.2	1.09	0.6	0.7	0.7
ECOWAS[m]	17	61	172	409	422*	6.7	8.6	9.2	13.4	20.5*	1.2	2.07	4.1	3.1	2.8*
MARIUN[n]	0	0	1	2	1	0.6	4.4	1.8	2.1	2.1	0.0	0.1	0.3	0.4	0.2
CEPGL[o]	0	2	4	8	3	0	6.5	34.2	38.3	13.3	0.0	0.2	0.5	0.5	0.1
PCCM[p]	41	37	48	132	316	10.4	8.8	7.9	8.7	4.6	4.7	2.2	2.1	1.9	4.4
TOTAL B	933	1 003	1 342	3 532	3 876	23.2	19.6	19.1	20.7	21.5	11.9	6.4	6.3	5.4	5.2

Sources: IMF/IBRD, *Direction of Trade* (Washington, D.C.), various issues; United Nations, *Yearbook of International Trade Statistics,* various issues; Inter-American Development Bank, *Progreso Económico y Social en América Latina* (Washington, D.C.), various issues.

Note. Unless otherwise stated, the date shown after the name of the grouping in the footnotes below indicates the year in which the grouping was established.

* = provisional.

0 = not zero, but less than half of the unit employed.

[a] Latin American Free Trade Association, 1960.

[b] Exports of crude oil from Venezuela to the Netherlands Antilles and Trinidad and Tobago are excluded from exports to developing countries as they constitute basically an entrepôt flow destined to customs bonded refineries for re-exports.

[c] Andean Group, 1969.

[d] Central American Common Market, 1960.

[e] Caribbean Community, 1968. Eastern Caribbean Common Market is not included.

[f] Arab Common Market, 1965 (introduction of trade preferences).

[g] Central African Customs and Economic Union, 1964.

[h] West African Economic Community, 1959 (initially West African Customs Union).

[i] Except for ASEAN since 1977 and MARIUN since 1976, none of the groupings listed below extended mutual trade preferences.

[j] Association of South-East Asian Nations, 1967.

[k] Figures adjusted to exclude entrepôt trade. Figures for exports of Singapore to Malaysia and Thailand are derived from import statistics of these two trading partners.

[l] Regional Co-operation for Development, 1964.

[m] Economic Community of West African States, 1975.

[n] Mano River Union, 1973.

[o] Great Lakes Economic Community, 1976.

[p] Permanent Consultative Committee of the Maghreb Countries, 1964.

decade from 1960 to 1970 intra-CACM trade grew from about $30 million to $300 million, and its share rose from about 8 per cent to 27 per cent. Since then, intra-CACM trade has risen further, to a level of about $600 million in 1976, though the share of this trade in total exports declined to about 20 per cent.

91. Initial levels of intra-area trade amongst Caribbean countries were low in comparison to their total trade. In 1967—the year before the establishment of CARIFTA (later transformed into CARICOM)—the share of exports from the countries which became members of CARIFTA to other countries of the group was estimated at about 5 per cent of total exports. This percentage rose substantially over an initial period and reached about 11 per cent in 1972. While intra-trade further increased to an estimated level of about $290 million in 1977, the share in total exports decreased to 8.5 per cent in that year.

92. A similar pattern of intra-trade development can be observed in some other groupings with a long-standing preferential history. Thus West African intra-trade substantially increased during the decade between 1960 and 1970 in the countries which now form the transformed CEAO, the share of intra-area exports increasing from about 2 per cent to 9 per cent during that period, before falling off to a level of 6 per cent in 1976. In UDEAC the share of intra-trade also increased from 2 per cent in 1960 to about 9 per cent in 1972, but has since also declined. Within the Arab Common Market, intra-trade increased between 1965 (year of entry into force of preferences) and 1974 from about $50 million to about $150 million, with the share increasing from 2.8 per cent to 4.5 per cent.

93. The apparent contrast during the 1970s between the further increases in the shares of intra-trade in many groupings and the stagnant or diminishing shares in others may be due partly to a phase of consolidation and transformation which various groupings underwent during that period, and which in some cases led to basic revision of their treaties and co-operation schemes. In some cases political difficulties appeared in the relationships between some of the member States of integration groupings. The rapidly worsened balance-of-payments difficulties of a number of developing countries also contributed to the decreasing trend in some instances. However, apart from the East African Community, which was dissolved, all the economic integration and co-operation groupings were able to overcome these difficulties and to adjust themselves to the new situation. In some cases the decreasing share of intra-grouping trade can, however, be attributed at least in part to the rapid increased in the value of petroleum exports of oil-exporting member countries which are mainly directed to world markets.

94. Table 3 shows that the increase in the share of trade within regions and subregions was related to the existence of preferential trading arrangements among them. Thus trade amongst member countries of groupings which either were only created during the 1970s or took the form of economic co-operation groupings without common trade liberalization schemes has failed to grow and, as a whole, even decreased over the period 1960-1970. For these non-preferential groupings, this trend has since been continuing, whereas in many traditional integration groupings the share of intra-grouping trade has again been growing after the low recorded in 1974.

95. The substantial increase in intra-trade experienced by most traditional integration groupings has had an important impact on the economic and trade structures of the member States, having been accompanied by an important diversification of their exports and of the commodity patterns of their intra-trade. These groupings achieved a particularly rapid growth of industrial products, though a similar tendency towards diversification also prevailed to some extent in favour of new agricultural products and other new commodities. In LAFTA countries, for example, where trade in agricultural products and commodities had already been liberalized to a certain extent before the LAFTA arrangements came into being, trade in manufactured products doubles its share during the decade from 1965 to 1975 from one quarter to one half of intra-LAFTA trade. In the Andean Group the share of non-traditional manufactures grew rapidly to 22 per cent of total exports. The share of manufactures in CACM trade rose from about 45 per cent on average in 1960-1962 to almost 80 per cent in 1975. Similar tendencies also prevailed in CARICOM, UDEAC, CEAO, etc., where manufactured products now participate strongly in intra-grouping trade.[21]

96. In many cases, very dynamic trade increases have been achieved in products of intermediate and capital goods industries, such as machinery, transport equipment, metal-mechanical products and chemicals. Some of the medium-sized or smaller member countries substantially increased their subregional exports in such products as textiles, certain agricultural products and base metal products.

97. Furthermore, the impact of trade preferences on the diversification of trade also expressed itself in the emergence of a range of new export products limited to trade within subregional integration and preference schemes.[22]

98. While it is difficult to ascertain the contribution of trade preferences to the increases in mutual trade, it is nonetheless likely that trade preferences had a significant positive impact on the volume and structure of the foreign trade of member States in most groupings. Certain groupings also showed the positive effects of these trade developments on their production, employment and investment for the extension of existing production capacities. The opening of the regional markets offered certain member States an opportunity for a more rational utilization of their national resources than would have been the case if the same pattern of production had been developed on a purely national scale. The larger regional market base may also have facilitated further efforts to export outside the subregional markets.

[21] See TD/B/C.7/22 and TD/B/C.7/32.

[22] See TD/B/C.7/21, paras. 30-33. Exports of the following products are virtually confined to the subregional markets:

CACM: synthetic and artificial fibres, glass, glassware, metal containers, dyeing and tanning matters, plastic materials, tools, wire products, telecommunication apparatus, road motor vehicles, cycles.

Andean Group: domestic machines and apparatus, domestic electrical equipment, man-made fibres, pharmaceuticals.

UDEAC: clothing, glassware, wire products, pharmaceuticals, articles of plastics, metal containers, tools.

99. An important contribution to the positive trade developments within the subregional and regional groupings mentioned above has undoubtedly been due to the creation of an economic co-operation environment combining trade measures with direct action in production, transport, finance and marketing, and improvements in mutual information on partner countries, including their trade channels and practices. In various cases, subregional arrangements have also been reinforced by additional bilateral trade arrangements and the strengthening of national instruments for export development and promotion.

2. *Development of trade within interregional preference schemes among developing countries*

100. As the first interregional preferential arrangement among developing countries, the Trade Expansion and Economic Co-operation Agreement between Egypt, India and Yugoslavia came into force in 1968. Under the arrangement, the member States accord each other tariff concessions on a range of mainly non-traditional products specified in a Common List, which has since been repeatedly expanded. In addition, the Agreement also had the objective of promoting industrial and other economic co-operation among the member States. In 1975/76 preferential imports of the three participating countries from their partners amounted to $34 million. The share of these imports in the total imports of the same items from other countries continues to be small (less than 1 per cent). The Agreement has so far had a modest impact on trade between the three participating countries.[23]

101. The major existing interregional preference scheme among developing countries has been established under the Protocol relating to Trade Negotiations among Developing Countries.[24] Under this Protocol the 16 original signatory countries[25] exchanged tariff preferences, in the main on industrial products. It entered into force for most of the signatories in 1973. Since then, the participating States have taken the initiative of inviting all other developing countries to explore the possibilities for further expansion of trade among them by accession to the Protocol. Three developing countries adhered to the Protocol during 1977 and 1978.[26] Two of them, Paraguay and Bangladesh, acceded without carrying out negotiations, under special provisions of the Protocol.[27] Furthermore, the participating States are considering the prospects for new negotiations aimed at enlarging the depth and type of concessions contained in the Protocol, extending the product coverage of the concessions, and encouraging further accessions.

102. While trade between the signatories in the products covered by concessions increased substantially since the entry into force of the Protocol, it remains a small proportion of over-all trade in these items and a tiny part of the over-all trade of the participating countries: in 1976 trade in these items of the 13 original signatories with other participating States amounted to $138 million[28] ($172 million in 1977)[29] or about 0.2 per cent of their over-all imports. It is, however, premature to endeavour a full evaluation of the trade effects of the Protocol at the present stage.

C. Lessons of integration and preference schemes among developing countries for a global system of trade preferences

103. The experience of developing countries with their preferential arrangements inside subregional and regional integration groupings shows that significant progress in trade development can be achieved by the application of suitable preferential techniques within an economic co-operation environment. This trade development has also exerted some impact on the economic development of member countries. In some cases this progress has, however, levelled off after a certain period and has been followed by a phase of consolidation and adjustment. In certain groupings, difficulties of a not entirely economic nature have affected intercountry relationships.

104. More generally, the far-reaching development objectives adopted initially by integration groupings were difficult to attain within the relatively short periods originally envisaged. Various kinds of obstacles experienced in the integration process, both within the area of trade and in other areas of co-operation, resulted in member States undertaking important adjustments, developing new approaches and instruments, and extending co-operation into new areas. This evolutionary process resulted in some cases in the reformulation of the basic concepts and treaties aimed at the extension of co-operation (which in the past had often concentrated on trade liberalization) in the direction of establishing economic communities and thereby complementing the trade approach with direct action in the fields of industrial and agricultural production and investments and the creation of financial institutions. It may be expected that these new initiatives will take root rapidly to produce positive trade and development results for the participating countries.

105. This tendency towards diversification of the areas and instruments of economic co-operation and integration was to some extent prompted by the desire to render the process more effective and to assure a direct impact on economic development, which in turn would provide the necessary production, investment and financial base for the

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[23] See GATT, "Report submitted by the delegations of the Arab Republic of Egypt, India and Yugoslavia on the operation of the Trade Expansion and Economic Co-operation Agreement, 1975-1976" (L/4565), paras. 5 *et seq*.

[24] The Trade Expansion and Economic Co-operation Agreement between Egypt, India and Yugoslavia is expected to be integrated at some stage into the Protocol, to which all three member States also adhere.

[25] Brazil, Chile, Egypt, Greece, India, Israel, Mexico, Pakistan, Peru, Philippines, Republic of Korea, Spain, Tunisia, Turkey, Uruguay, Yugoslavia.

[26] Bangladesh, Paraguay, Romania.

[27] Ratification procedures had not, as of November 1978, been completed by two signatories, Paraguay and the Philippines.

[28] See GATT, "Trade negotiations among developing countries—Committee of Participating Countries: Fourth Annual Report to the Contracting Parties" (*Basic Instruments and Selected Documents, Twenty-fourth Supplement* (Sales No. GATT/1978-1), p. 154). According to supplementary information provided by the participating States, aggregate trade with other participating countries in products included in the schedules of concessions represented 4.5 per cent in 1972 and 6.3 per cent in 1974 of imports by participating countries from the rest of the world in the same products.

[29] GATT documents L/4710 and addenda.

exploitation of the potential benefits expected from the trade liberalization measures.

106. To an important extent these initiatives also facilitate the task of assuring an equitable distribution of costs and benefits amongst member States so that all countries can derive significant benefits from their co-operation. The combination of the principle of mutual advantages with the spirit of solidarity substantially improved the results of co-operation for all the participating countries of such schemes.

107. Concerning the question of over-all distribution of costs and benefits, particular attention needs to be focused on the position of relatively less advanced or least developed member countries and on how to assure that such countries can effectively benefit. Subregional exports of relatively more advanced member States frequently grew in many cases much faster than those of least developed and other relatively less advanced partner countries. In several cases, subregional exports concentrated during the trade liberalization process on the former. As a result, trade imbalances increased, and the operation of trade preferences resulted in reduced budgetary revenues from tariffs, higher net import cost and worsened terms of trade for some of the relatively less advanced member countries. In turn, such countries derived only limited benefits in terms of increased exports, the creation of new employment, additional production or investment. Various instruments have been developed in the recent past by the integration groupings to respond to these concerns and to strengthen co-operative measures in favour of relatively less advanced partner countries, both in the area of trade liberalization and in the direct strengthening of their trade and production structure.

108. Several groupings strengthened trade liberalization measures in favour of their less developed member countries, and certain Latin American groupings fully liberalized imports of most products of export interest to such countries by removing all tariff and non-tariff barriers. Special sectoral arrangements for selected agricultural commodities and rapid liberalization of trade in most agricultural products as applied by African groupings and in the Caribbean can also be of substantial interest to less advanced member countries still heavily dependent on exports of commodities and other agricultural products. Certain African groupings apply fiscal compensation mechanisms in order to reduce the adverse effects of tariff preferences on import cost and budgetary revenue and thereby to alleviate the effects of structural imbalances in trade in industrial products among member States.

109. In view of the limited results of trade measures alone, several groupings undertook initiatives to complement them with action directly geared towards increased co-operation in production, investment and finance in less advanced member countries. This included the elaboration of regional industrial schemes or sectoral programmes with direct allocation of suitable investment projects to the less advanced member States, supported by appropriate financial measures and market access commitments. Substantial progress in the implementation of such programmes has assured, for example in the Andean Group, significant direct benefits to less advanced member countries and will also be reflected in substantially increased and stable subregional exports.

110. The Andean Group and LAFTA have furthermore proceeded towards the establishment of specific country support programmes to assist the less advanced countries in their groupings in their efforts to make appropriate use of preferential facilities already existing in their favour, to strengthen their export sector, to explore new areas for co-operation in trade and production and to promote generally technical co-operation with them.

111. With respect to the preferential instruments applied within subregional, regional and interregional preference and trade liberalization schemes of developing countries, experience would support the view that tariff preferences alone are unlikely to be sufficient to bring about a substantial increase in mutual trade and the attainment of development objectives. There is an increasing awareness of the need to tackle the problems posed by the incidence of major non-tariff barriers on mutual trade. A large majority of the developing countries apply licensing schemes with respect to all or a large part of their imports of products which can be supplied by other developing countries. In many cases licensing is applied in a restrictive manner, whether or not accompanied by product quotas or quotas for individual importing enterprises. In several countries, imports of important export products of developing countries are either severely restricted, prohibited, temporarily suspended or otherwise subject to special authorization procedures. Some developing countries make use of import deposits, foreign exchange licensing or other foreign exchange restrictions, in addition to tariffs and other non-tariff barriers.

112. Within integration groupings, important progress has been made towards the relaxation and elimination of such barriers. Some groupings have succeeded in removing these barriers with respect to an important proportion of their intra-trade, while maintaining special provisions enabling relatively less advanced member countries to protect some of their emerging or new industries. Other techniques adopted include the non-application of at least certain restrictions such as import deposits, the opening of subregional import quotas, and the application of a standstill resulting in no new non-tariff barriers or administrative restrictions on intra-trade or, at least, on products covered by trade concessions already negotiated. The commitment to notify, for the purpose of new trade negotiations, any such barriers affecting products subject to such negotiations substantially increases transparency and the possibility of evaluation of concessions by partner countries. In groupings or schemes where action in respect of such non-tariff, administrative and exchange barriers has not been sufficiently emphasized, preferential trade has soon experienced limitations which put a brake on further advances.

113. There is an increasing trend for integration groupings to adapt their preferential trading arrangements to the fact that in some member countries a high proportion of foreign trade is often carried on by State trading corporations, public purchasing agencies or other large-scale State-owned companies, or in the form of public tenders. Thus, for example, CARICOM and ASEAN have introduced provisions whereby member countries grant priority to other member countries in their public purchasing operations when prices and other conditions of sale are equal. Furthermore, ASEAN has introduced a price preference in public procurement in favour of regional suppliers. Similar

measures, such as the promotion of medium- and long-term contracts and compensatory trade arrangements, are also in use for adapting the preferential instruments to the trade practices frequently applied in this sector. They complement tariff and non-tariff preferences adopted traditionally within preference schemes. Certain groupings are now in the process of studying the scope for introducing or intensifying these types of measures on a large scale to promote trade within the grouping.

114. The experience of the various integration groupings and preference schemes also throws some light on the relevance of various negotiating approaches to preferential arrangements. Some groupings applied linear techniques to tariff and non-tariff negotiations. These techniques substantially facilitated negotiations, helped to maintain the dynamics of the trade liberalization process, and frequently assured significant results. To some extent linearity has, however, been modified to meet the needs of specific market constellations–for example, where linear negotiating targets are applied only to certain product categories, or varied between various product groups. Also, in certain cases, the reductions agreed on did not amount to full removal but were limited in depth. The Andean Group experience shows that a variation based on product categories can provide a negotiating approach which is suitable to the needs of the member States and provides significant room for taking into account such considerations as the needs of industrial programming and of the less developed member countries and still lead to rapid and significant trade results.

115. On the other hand, experience indicates that, at least in the initial stages, progress can also be made with the application of product-by-product approaches, where the application of a preference and the preference margins can be determined individually for each product. This procedure can be refined through the introduction of percentage targets for a linear reduction of MFN rates on selected products. But such negotiations, if carried out fully on an item-by-item basis, have shown a tendency to become cumbersome and lengthy and the dynamics of the negotiation process have tended to weaken. This lack of built-in dynamics may have been due to the fact that such negotiations have often not brought about the originally expected negotiating results, as product coverage and/or the depth of concessions remained disappointing. In some cases, only a part of the negotiated concessions can be effectively utilized, as has been shown, for example, in studies undertaken within LAFTA. Nor have item-by-item negotiations provided a real guarantee for the effective balancing of preferential trade amongst member countries.

116. Among the approaches giving the most successful results in Latin American integration movements are the sectoral approaches combining trade liberalization objectives with industrial or agricultural development objectives (Andean Group, LAFTA, CACM, CARICOM, SELA). The Andean Group's sectoral industrial allocation agreements have led to important investments and to substantial new trade flows within the area. The complementarity agreements within LAFTA offer a highly flexible framework for preferential negotiations among interested countries with objectives of industrial complementarity and specialization within an industrial sector. Concessions only extend to participants and to the less advanced countries. The private sector is closely associated with the negotiation of such agreements. In the recent past several of the LAFTA complementarity agreements took the form of surplus and deficit agreements under which concessions are only exchanged for short periods of one or two years (renewable). Similar sectoral approaches are being further developed by SELA within its action committees for specific co-operation projects, such as the establishment of multilateral production or marketing enterprises amongst the interested countries.

117. Some groupings have also successfully emphasized the importance of developing appropriate trade information systems amongst their partner countries. This corresponds indeed to one of the most serious lacunae in trade relations among developing countries.

118. Latin American schemes have taken interesting steps towards developing a market information system on a subregional and regional basis. For example, LAFTA has made considerable progress towards defining such a system for agricultural products. As a consequence the LAFTA secretariat has started the periodic publication of market information bulletins. The Conference of LAFTA Contracting Parties, *in its resolution* 246 *of* 1969, which formally established this system, decided that member States should regularly send their estimates of surpluses and deficits in respect to national consumption of agricultural products; this information should include the identification of each product, the variety, volume and quality, type and commercial standards, as well as the period of possible supplies or import requirements. To the extent that trade in agricultural products is carried on by State or parastatal agencies or by means of public tenders or direct contracts, contracting parties provide information, including all the necessary specifications and data concerning the products in question, to other member States, through the Permanent Executive Committee, sufficiently in advance.

119. New linkages between trade and financial mechanisms are also emerging in developing countries' co-operation schemes. New trade finance mechanisms have been created inside and outside integration movements by some developing countries in their bilateral relations as well as by multilateral finance institutions, such as the Islamic Development Bank and the World Food Programme. They include the provision of special import credits giving priority to purchases made in developing countries. A number of new clearing schemes have been created and efforts are under way to promote their interlinkages on an interregional level.[30]

120. The developing countries' experience with an increasing number of bilateral trade, industrial and economic co-operation agreements has also become increasingly relevant. In several cases a variety of complementarity and interconnected measures are covered in such agreements. There is also a tendency towards the spreading of preferential techniques from trade to various related areas (such as cargo reservation, preferential freight rates, preferential measures with respect to transfer of technology, marketing and distribution, etc.), particularly within the context of bilateral arrangements.

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[30] See document TD/244, paras. 60-66 (clearing arrangements), reproduced in the present volume, and chap. I below.

121. In conclusion, experience with integration and preference schemes among developing countries would indicate that the establishment of a global system of trade preferences should be considered as a long-term evolutionary process that needs to be carefully phased so as to allow progressive and pragmatic adjustments to be made on the basis of the experience gained during the various phases. Approaches towards a global system should therefore be based initially on well-defined negotiating objectives with respect to individual trade barriers and trade measures.

122. Limited step-by-step reduction of tariffs and other barriers to trade should also facilitate harmonization between the establishment of the global system of trade preferences and the various subregional and regional preference schemes among developing countries, including those which are just emerging in various African and Asian groupings. Some of these groupings are about to elaborate their preference schemes, and in others preference margins are still small and concern only a limited range of products. A global scheme will need to take account of the resulting limitations facing member countries of such groupings so as to enable them to join the scheme.

123. The progressive strengthening of subregional and regional groupings would appear to be a necessary complement to the establishment of a wide system of interregional preferences, and these two should act in a mutually reinforcing manner. Developing countries' integration groupings and their institutions should at an early stage be fully associated with the efforts to design and concretize a global system of trade preferences so that all developing countries can benefit fully from the experience of these groupings in the past. Such groupings should equally be able to join negotiations on a global system as single units if they so desire.

124. A gradual and progressive approach towards the establishment of trade preferences would also be called for to ensure that such preferences are aligned to progress in other areas of economic co-operation among developing countries. Past experience shows that preferences are more effective if linkages are built up between the economies of the participating countries, in particular between their channels of information, marketing, transport, payments, financing and production. Trade preferences should therefore be based on a comprehensive and systematic approach to economic co-operation which permits close interaction amongst its various components.

CHAPTER III

Multinational marketing enterprises

A. The role of multinational marketing enterprises

125. A characteristic feature of international trade is the growing market power of international conglomerates able to centralize marketing operations covering a range of commodities originating from a number of different international sources and destined for a widely diversified international market. Few developing countries are in a position to establish competing marketing enterprises; the few that have been established are generally limited in scope, in terms of both commodities traded and sources of supply, as well as in terms of financial and other operational constraints. In this situation, multinational marketing enterprises designed to handle a number of commodities originating in different countries, with sufficient autonomy to mobilize resources and undertake market operations, suggest themselves as potentially useful instruments for increasing the participation of developing countries in international trade.

126. In view of the fact that primary commodities account for approximately 80 per cent of the export trade of developing countries, it is natural that an increased participation in the marketing and distribution of these commodities should have become a matter of priority for many of these countries.

127. While the indigenous trading firms of developing countries (both public and private) may operate successfully in the domestic market, they confront an altogether different situation in the international market, where they must compete with the large international trading companies. Unlike most indigenous trading companies of developing countries, the international traders do not restrict their sources of supply to the exportable surpluses of any one country, and in addition they often handle a large number of commodities. Similarly, they are often able to benefit from a diversification of market outlets. Also, international trading companies often combine financial and production management in order to create vast intra-firm chains linking up financial, production and marketing circuits through the wholesale and even retail phases and can often significantly influence the pricing of commodities through operations in the commodities exchanges, including operations in the futures markets. National marketing agencies, on the other hand, do not often engage in these types of operation and are thus often forced to operate as passive entities, maintaining traditional marketing channels and working through international middlemen.

128. The establishment of multinational marketing enterprises could assist developing countries in reaping many of the advantages now enjoyed by the large international traders and thereby enhance their competitive position in relation to these traders. Thus, by combining the marketing of the products of a number of exporters they could increase their market power. Also, as a combined operation, they would have access to more financial measures and could obtain financing from international finance institutions on more favourable terms than those accorded to national marketing agencies individually. This would also make it easier to engage in downstream marketing operations, including wholesaling, transport, processing, and in some cases perhaps even retailing operations in the major developed markets. The operations of such enterprises could be expected to result in net foreign-exchange savings, reflected both in the profits of the multinational enterprises and in a greater f.o.b. value for the commodity exported.

129. With respect to manufactured products, only a few developing countries are significant exporters, and to a large extent their international sales are dominated by transnational corporations which have transferred certain production capacities to developing countries. Given the closed intra-firm pattern of such trade in manufactures, the prospects for the establishment of multinational marketing enterprises for the promotion of manufactured exports of

developing countries would seem to be largely limited to traditional, low-technology manufactures.

130. While a number of initiatives have been taken within the context of certain integration groupings for adoption of common rules for the establishment of multinational enterprises,[31] there is no agreed model generally used for the establishment of such enterprises. On the contrary, multinational enterprises have evolved under a great variety of forms. Indeed, it may be said that each multinational enterprise is unique, in the sense that its juridical and institutional structure has been designed in conformity with its own particular needs and reflects its own objectives, functions and specific characteristics.

131. Although multinational marketing enterprises would naturally be concerned primarily with the marketing and distribution of the products concerned, the scope of their activities would in general need to be sufficiently wide to cover, where appropriate, production, stocking, transport and ancillary financial and other services required for their operations. They would need to be able to diversify their sources of supply, mobilize financial assets, operate in the international commodity exchanges and make firm arrangements with suppliers. Their operations could likewise include other related activities, such as joint import procurement of agricultural, mining and industrial equipment or other inputs required for the production of the main export products. Conceivably, the enterprise could also be allowed to intervene in the international commodities exchanges to stabilize the price of a given commodity, to contract loans and buy into the equity of firms operating in its area of concern, to provide finance, including the financing of buffer stocks, production and related infrastructural facilities, such as warehousing and transport facilities, and to engage in research and development and quality control.

132. For maximum effectiveness the legal and operational scope of multinational marketing enterprises should therefore not be unduly circumscribed; it should be based essentially on the agreed objectives to be pursued, taking into account the characteristics of the products to be marketed and the limitations imposed by financial and other agreed constraints.

B. Possible sectors for the promotion of multinational marketing enterprises among developing countries

133. A selection of sectors that lend themselves to the establishment of multinational marketing enterprises has been undertaken by the UNCTAD secretariat. The selection was carried out in two phases: first, a survey of international trade statistics was undertaken to identify products and groups of products which either represent a substantial share of the exports of developing countries as a whole, or have shown dynamic growth during recent years. This was followed by field consultations in a considerable number of developing countries in Africa, Asia and Latin America, on the basis of which the interest of public and private concerns in the possibility of setting up multinational marketing enterprises could be ascertained.

[31] See "Juridical aspects of the establishment of multinational marketing enterprises among developing countries: report by the UNCTAD secretariat" (TD/B/C.7/28), paras. 33-58.

134. For the purpose of the statistical survey, use was made of data by SITC categories on the value of imports and exports from and to the world for 20 country groups. The data were analysed to identify the most significant export products of developing countries, i.e. those representing a substantial percentage of total world exports. Further research enabled other products to be added which, even if they were not significant in terms of global value, were nonetheless important for a large number of individual developing countries or had shown a dynamic rate of growth during recent years. A first list of products, which appears in table 5, was thus obtained.

TABLE 5

Products selected after statistical survey

SITC	*Products or groups of products*
011	Meat, fresh, chilled or frozen
032	Canned fish and fish preparations
044	Maize
051	Fresh fruits and nuts
053	Fruit, preserved, and fruit preparations
054, 055	Vegetables, fresh or frozen, and vegetables, preserved or prepared
061	Sugar
071	Coffee
072	Cocoa
074	Tea
121, 122	Tobacco, raw and manufactured
221, 421, 422 . .	Oilseeds, oil nuts and oil kernels. Fixed vegetable oils
231	Crude rubber
242, 243, 251, 631, 821	Wood, rough, shaped, pulp and waste paper, veneers and plywood, furniture
261	Silk
263	Cotton
271, 561	Fertilizers, crude and manufactured
281, 282, 671-174	Iron ore, iron and steel scrap, pig iron, iron and steel ingots, bars, rods, plates and sheets
611, 612, 851 . .	Leather and leather manufactures, footwear
657	Floor coverings, tapestries
681	Silver and platinum
682	Copper
684, 283.3	Aluminium and bauxite
687	Tin
714	Office machines
722	Electric power machinery and switchgear
724	Telecommunications apparatus
725	Domestic electrical equipment
732	Road motor vehicles
733	Non-motor road vehicles
841	Clothing (not of fur)
894	Toys, games and sporting goods
896	Works of art

135. Following this first survey, consultants visited a number of developing countries in Africa, Asia and Latin America. The selection of the countries was made so as to obtain a representative sample from the three regions.

136. Contacts in these countries included ministries, investment boards, marketing boards, export promotion councils, State trading enterprises, chambers of commerce and industry, international trading agencies, producers' and exporters' associations and individual businessmen. These surveys made it possible to detect problems and opportunities in connexion with proposals for multinational

marketing of the products identified in the first selection exercise. While reaction varied considerably not only from country to country but also from region to region, in general the results of the surveys confirmed the willingness, and in some cases the readiness, of producers and exporters, both public and private, to engage in negotiations for the promotion of multinational marketing co-operation arrangements and for the eventual setting up of multinational marketing enterprises for a number of commodities. In general, the approach most favoured by producers and exporters was that of promoting contacts among themselves at the level of specific commodities and with well-defined objectives, to explore possibilities for co-operation in marketing and related issues, with participation limited to those countries with a substantial interest in the given commodity. While in some cases it was considered preferable for the first rounds of consultations to be organized among exporting countries of the same region, there was also considerable interest in engaging in early consultations with exporting countries of other developing regions, in view of the similarity of the interests of all developing countries exporters of a given commodity. The surveys also made it possible to identify initiatives for multiple-purpose marketing arrangements, and it was felt that a programme of this type should be conceived as a process of co-operation in marketing which could, but would not necessarily, lead to the establishment of multinational marketing enterprises, since there were a number of worth-while opportunities arising in the field of co-operation in marketing that did not require the establishment of such enterprises. Regarding the sectors found to hold the greatest potential for initiating action for co-operation in marketing, the following were identified:

(*a*) *In the African region:* coffee, cocoa, tea, oilseeds and vegetable oils, timber, cotton, sisal, fruits, nuts, vegetables, phosphates, copper, textiles and garments, leather goods, handicrafts, meat, fish, and meat and fish preparations.

(*b*) *In the Asian region:* tobacco, rice, cotton, rubber and rubber products, tea, jute and jute products, tapioca, timber and timber products, spices, vegetable oils (palm oil and coconut oil), cattle feed, leather and leather goods, canned fruits, marine products, tin, base metals, minerals, steel (prime and fabricated), electronic goods, railway equipment, non-motor vehicles, furniture, non-electrical machinery, including agricultural machinery, ready-made garments, and automobile components.

(*c*) *In the Latin American region:* sugar, coffee, cocoa, cotton, meat, vegetable oils, timber, copper, bauxite, tin, iron ore, silver, lead, zinc, marine products, fertilizers, fruits and vegetables (fresh and canned), alcoholic beverages, high-nutrition foodstuffs (derivatives of fishmeal, soya, quina, cocoa, sugar, etc.), animal feed, tobacco (raw and manufactured), leather, hides and skins and their manufactures, food products, furniture, pulp, paper and cardboard, textiles and garments, steel products, non-ferrous metal products, building materials, engineering products, domestic electrical equipment, chemical products and handicrafts.

137. A consolidation of the above regional lists of products is presented in table 6, which also indicates the *interregional* relationships of the various selected product groups.[32]

C. Possible lines of action for the promotion of multinational marketing arrangements and enterprises among developing countries

138. Suggestions for the promotion of multinational marketing action and of multinational marketing enterprises in the developing countries should first take stock of existing promotional schemes already in operation in those countries as well as of initiatives which are being generated, spontaneously, by a number of private and public, national and multinational promoters. Among the organizations already taking such initiatives may be mentioned existing producers' and exporters' associations, operating either at a commodity-wide level or at the level of regions and subregions; the Council of Producers' Associations; subregional chambers of commerce and industry; and State trading organizations. Special mention should be made of the Latin American Economic System's action committees, several of which are engaged, with the participation of interested Latin American countries, in the promotion of multinational marketing enterprises. These action committees appear to be an institutional arrangement particularly well suited for this purpose.

139. Over and above the support which may be given to initiatives already being taken by the above organizations, it would be possible to envisage a programme geared to the systematic promotion of multinational marketing enterprises at both the regional and interregional levels, by bringing together the exporting countries concerned with the joint marketing of specific products or groups of products to design, among themselves, the multinational marketing arrangements best suited to their interests and to the specific characteristics of the commodities concerned.

140. Such a programme could be prepared on the basis of the sector appearing in table 6. Depending on the interest shown, a few high-priority sectors could be selected for promotion over a reasonable period—for example, three to five years—both at the level of each region and interregionally. Provision should simultaneously be made for in-depth sectoral studies to be carried out in relation to the commodities selected, which should place special emphasis on the marketing and distribution problems of the selected commodities.

141. On the basis of the studies, it would be possible to convene regional and interregional meetings of producers and exporters to discuss proposals for multinational marketing action, particularly through the establishment of multinational marketing enterprises. Such marketing arrangements could *inter alia* perform the following functions:[33]

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[32] It should be noted that the products identified include a number which are already the subject of co-operative action by producers' associations and other similar bodies of developing countries.

[33] It will be noted that there is an area of overlap between these functions and those of State trading organizations (see document TD/244, reproduced in the present document). Action in respect of these two instruments for economic co-operation among developing countries would therefore need to be closely co-ordinated.

TABLE 6

List of products resulting from field consultations

SITC equivalent	*Product*[a]	*Africa*	*Asia*	*Latin America*
01	Meat and meat preparations	x		x
031, 032	Fish and fish preparations	x	x	x
042	Rice		x	
051, 053	Fruit and nuts, fresh, dried and preserved	x	x	x
054, 055	Vegetable roots and tubers, fresh and preserved	x	x	x
061	Sugar			x
071	Coffee	x		x
072	Cocoa	x		x
074	Tea	x	x	
075	Spices		x	
081	Animal feed		x	x
112	Alcoholic beverages			x
121, 122	Tobacco, raw and manufactured		x	x
211, 611, 612, 851	Hides and skins, leather and leather products	x	x	x
221, 421, 422	Oilseeds, vegetable oils	x	x	x
231, 621, 629	Rubber and rubber products		x	
242, 243, 631, 632, 821	Timber, wood and wood products, including furniture	x	x	x
251, 64	Pulp, paper and paperboard			x
263	Cotton	x	x	x
264, 651.9(2), 653.4, 656, 657	Jute and jute products		x	
265.4	Sisal	x		
271, 561	Fertilizers, crude and manufactured	x		x
281	Iron ore	x	x	x
283	Non-ferrous base metals	x	x	x
283.3	Bauxite	x	x	x
283.7	Manganese		x	
59	Chemical products			x
67	Steel and steel products		x	x
676	Railway equipment		x	
681.1	Silver			x
682	Copper	x	x	x
685	Lead		x	x
686	Zinc		x	x
687	Tin	x	x	x
689.4	Tungsten		x	x
71	Non-electrical machinery		x	x
72	Electrical machinery		x	x
725	Domestic electrical equipment		x	x
732.1, 732.8	Automobile components		x	
733	Non-motor vehicles		x	
65, 841	Textiles and garments	x	x	x
	Handicrafts[b]	x	x	x
	Non-ferrous metal products[b]			x
	Building materials[b]			x
	High-nutrition foodstuffs[b]			x
	Electronic goods[b]		x	

[a] The product descriptions are those in the consultants' reports and therefore do not always correspond exactly to the SITC definitions.

[b] Products with broad definition, including different SITC components.

(*a*) Centralizing the marketing of exportable supplies of goods, and adopting guidelines for standardization and for adapting products to the requirements of the world market;

(*b*) Implementing concerted programmes for reciprocal trade with developing as well as developed countries;

(*c*) Centralizing the export promotion activities linked to specific commodities and establishing common trade marks and designs;

(*d*) Setting up trade intelligence systems in the major markets;

(*e*) Encouraging research with a view to making innovations in product lines and introducing new lines, and advising national enterprises on ways of adapting their production to the requirements of the market;

(*f*) Programming the shipping of imports and exports, making maximum use of available storage capacity and arranging combined shipments in order to reduce transport costs;

(*g*) Undertaking direct purchasing of exportable surpluses and entering into contracts with individual firms of the participating developing countries capable of producing goods to the required quality standards and at competing prices;

(*h*) Purchasing in bulk the inputs and capital goods required by the specific production sectors;

(*i*) Diversifying marketing lines so as to offset trade risks.

142. Sector meetings could be envisaged, aimed at reaching agreement on the scope for co-operation in each sector. In order to ensure flexibility and operational attractiveness, each sectoral meeting could define its own scope for action, including the definition of the sector under negotiation. It could be expected that, if adequately serviced, these sectoral meetings, which would normally include representatives of both public and private firms, would not only work out proposals relating to multinational marketing arrangements but could also become a permanent machinery for advising the participating Governments on matters related to the development of the given sector as a whole.

CHAPTER IV

Multinational production enterprises

143. If the developing countries' objective of attaining collective self-reliance is to be achieved, a major effort will need to be made to increase their share in world manufacturing production, in the processing of mineral and agricultural commodities and in world food production.

144. While the developing countries' share in world manufacturing production has increased somewhat in recent years, it is still only about 8 per cent of the world total. In the case of basic intermediate, engineering and capital goods the share of the developing countries in world production is even smaller. Similarly, notwithstanding important increases in recent years, the developing countries' share in world exports of manufactures is still quite small (8 per cent), and for basic engineering and capital goods their share is negligible. On the other hand, developing countries are still heavily dependent on developed countries for their imports of manufactures, and particularly for their intermediate and capital goods so critical for their development.

145. In contrast, developing countries are major producers of mineral products and account for a significant share of world mining production and of world trade in a number of mineral products. But only to a very limited extent have developing countries been able to engage in significant domestic processing of their mineral products or to use their output of these products as a basis for significantly widening and deepening their industrialization base.

146. In the field of agriculture, although substantial increases have been recorded in developing countries' food production, such increases have often failed to keep pace with population growth and, in recent years, the developing countries as a group have become heavily dependent on imports for their basic food needs. Thus developing countries' net imports of grain have risen considerably, from about 10 million tons in 1960/61 to 36 million tons in 1974/75. The cost of these grain imports is substantial and reached some $10 billion in 1973/74.

147. To reverse these trends the developing countries must accelerate their development efforts by strengthening their technical, financial and economic co-operation within a strategy of collective self-reliance and a restructuring of world trade and production. This would imply that developing countries should proceed in a concerted manner to increase the average annual rate of growth of agricultural and industrial output, taking into consideration the need for a substantial change in the structural composition of manufacturing production. In addition, the future industrial growth of developing countries implies a radical change in the pattern of their import dependence on developed countries and requires an accelerated expansion of their intra-trade flows.

148. These ambitious goals imply a structural transformation of the institutional mechanism which governs production and trade relationships among countries and can hardly be achieved without substantial progress in the current North-South negotiations for restructuring the existing world economic order and without a strengthening of the economic and financial links among developing countries. In this regard it is felt that multinational production enterprises among developing countries can play an essential role by facilitating the expansion of their mutual trade, making better use of their productive resources, and helping to develop new managerial, technical and marketing skills to help meet and offset the dominant influence of transnational corporations and State enterprises of developed countries.

149. The basis for enhancing economic co-operation among developing countries already exists. There are some countries in a capital surplus position and with financial resources that they may not be able to absorb fully in the short run, even within their geographical region. There are also developing countries which have greatly increased their industrial and technical capabilities and are in a position to supply an increasing proportion of the capital goods and technical services required by other developing countries, including the provision of package industries. Further, there are developing countries richly endowed with natural resources which are not in a position to use them efficiently owing to lack of capital, managerial skills and technology. In other cases, lack of trained manpower introduces serious constraints to the development efforts. Thus the scope for strengthening economic co-operation by the pooling of resources, markets and technical capacity to reap the benefits of complementarities, economies of scale and specialization exists among these countries.

150. In the last 20 years serious attempts have been made throughout the developing world to boost industrial production and develop new intra-trade flows by way of co-operative arrangements, ranging from formal integration groupings (such as market integration and sectoral planning) to *ad hoc* schemes of more limited scope, such as selective trade liberalization policies and joint ventures. Although the experience in the former case has not been as successful as originally expected, the fact is that trade in manufactures among developing countries has increased rapidly in the last decade or so (see chap. II). Moreover, between 1970 and 1975, nearly a third of the increase in developing countries' intra-trade in manufactures consisted of machinery and equipment.[34] In these developments the role played by multinational production enterprises of developing countries, although limited, has been of some

[34] Based on data in GATT, *Networks of World Trade by Areas and Commodity Classes, 1955-1976* (Sales No. GATT/1978-4).

importance. To proceed further along this path, closer co-operation in the planning of industrial expansion and in the development of new ventures, and more liberal policies towards imports from each other, will be required if trade among developing countries is to experience rapid expansion.

151. In this regard, it appears that there is a tendency to rely increasingly on new forms of co-operation arrangements (as compared to the formal and global approaches already referred to) in order to expand industrial production and new trade flows among developing countries. This tendency has been particularly apparent whenever closer economic co-operation is envisaged among a large group of countries with different levels of industrial development.

152. These new mechanisms of a more flexible nature, which involve no further commitments of co-operation in other areas once the projects have been implemented, assume different modalities concerning ownership, financing, management, trade liberalization and the transfer of technology. Many of them relate to joint ventures supplemented by market arrangements for the provision of inputs or the sale of their products. The initiative often comes from Governments, directly or through public corporations.[35]

153. Management sources for this type of arrangement are varied. It is sometimes the case that not all the technical and management staff come from the participating developing countries themselves. Technology is often acquired from third parties or is provided by one of the participating members, and several joint ventures have relied entirely on technology that participating developing countries have already mastered. Market arrangements regarding the provision of inputs or raw materials take different forms. Typically, inputs and raw materials are provided by the host country at prevailing domestic prices or come from international markets from the best available source. When a participating country or a parent company is responsible for supplies of specific inputs, the agreement usually specifies that they will be valued at prices prevailing in the international market. With respect to market arrangements for the end product, it is a common practice to establish joint ventures that benefit from selective trade liberalization measures.

154. The number of multinational production enterprises among developing countries established in recent years following these modalities has shown an upward trend in Asia, Africa and Latin America and especially among the Arab and Moslem countries. In Latin America, the members of SELA have set up a new institutional approach for the creation of multinational production enterprises following a parallel course to these countries' efforts in integration groupings. In Asia, with the establishment of the Association of Development Financing Institutions in Asia and the Pacific and its recent commitment to participate in the financing of multinational projects of regional interest, a further step has been taken in this direction. Similar action is envisaged in Africa and Latin America with the establishment of the Association of African Development Finance Institutions and the Latin American Association of Development Financing Institutions (ALIDE) in these two regions respectively.

155. Nevertheless, further action is needed by the developing countries to enhance their capacity to identify, formulate, implement and efficiently operate multinational production enterprises and to strengthen the institutional mechanisms for economic co-operation in the productive sectors, with the support of the developed countries and the United Nations system, and within the framework of a restructured global system for production and trade. This would imply, among other things, concerted and self-supporting action in the following strategic areas:

(*a*) Closer monetary and financial co-operation for the financing of pre-investement studies, the provision of equity and short- and long-term financing, the expansion and further development of multinational payments and clearing arrangements, export credit and export guarantee schemes, balance-of-payments support mechanisms and the facilitation of financial flows from surplus countries towards deficit developing countries;

(*b*) The strengthening of technical co-operation on science and technology, organization and planning, research and development, transfer of technology and manpower training and development;

(*c*) More liberal trade policies and practices to facilitate market access for processed and semi-processed products and for the expansion and development of new trade flows, including trade preferences and special transport, marketing and distribution arrangements;

(*d*) The improvement, co-ordination and global integration of the existing intergovernmental institutional mechanism, at the subregional, regional and interregional levels, for the identification, selection, evaluation, formulation and implementation of projects for multinational production enterprises.

156. Sectoral studies on fertilizers, paper and rubber products have been undertaken as an initial phase of a long-term programme of studies aimed at identifying viable projects for the establishment of multinational production enterprises among developing countries. The studies have been carried out by independent consultants in close consultation and collaboration with UNIDO, FAO and other specialized bodies of the United Nations system and the developing countries. These studies provide relevant information on potential demand and prospects up to 1990 for achieving valid goals of collective self-reliance at the subregional, regional and interregional levels, as well as an indication of the productive capacities required to meet the anticipated new demand, including information on managerial, investment, manpower and technological requirements. The studies also include alternative policy guidelines for reaping maximum benefits from complementarities and specialization as well as operational criteria for the financing and implementation of the selected projects. The studies have been reviewed by an FAO/UNIDO/UNCTAD

[35] A number of studies on joint ventures in developing countries have been undertaken by the UNCTAD secretariat. See: "Joint ventures among Latin American countries, by Mr. Antonio Casas-González, consultant" (TD/B/AC.19/R.2 and Corr.1); "Joint ventures among African countries, by Mr. Pius N. C. Okigbo, consultant" (TD/B/AC.19/R.3); "Joint ventures among Arab countries, by Ibrahim F. I. Shihata, consultant" (TD/B/AC.19/R.5 and Corr.1 and Add.1); "Joint ventures among developing Asian countries, by Dr. Ram Gopal Agrawal" (TD/B/AC.19/R.7 and Corr.1).

intersecretariat group and subsequently amended and further elaborated. Based on these revised reports, a process of intergovernmental consultations through the established channels is expected to start soon. Subsequently, it is envisaged that a meeting of multilateral financing institutions of the developing countries, the regional grouping secretariats and the appropriate bodies of the United Nations system will be convened in order to devise a viable mechanism for the financing and implementation of high-priority projects.

CHAPTER V

Other measures for strengthening subregional, regional and interregional economic co-operation and integration

157. The Mexico City programme calls on UNCTAD to participate in activities for co-operation in transport, with the aim of strengthening co-operation among developing countries.[36] Such activities might include multinational transport facilities, services and enterprises, joint shipping services by developing countries at subregional, regional and interregional levels, and united action to secure financing for multinational projects for road, shipping, railway and air linkages.

158. In its resolution 1 (I), the Committee on Economic Co-operation among Developing Countries, after reviewing the Mexico City programme, in turn called upon the Secretary-General of UNCTAD to give special priority to measures to strengthen subregional, regional and interregional economic co-operation and integration.[37]

159. The importance of the development of infrastructure and transport and communications facilities was stressed by the Working Party on Trade Expansion and Regional Economic Integration among Developing Countries which was convened in April 1978 by the UNCTAD secretariat.[38] It was noted that transport and communications deficiencies still constituted a major obstacle to trade expansion between developing countries at all levels, that infrastructure co-operation could offer important economies of scale and foreign-exchange savings, could be an important integration instrument for distributing the costs and benefits of integration, and could strengthen cultural and business links, and that interregional trade expansion required an increased emphasis on interregional co-operation in sea and air transport measures. The Working Party noted the special responsibility of UNCTAD in relation to shipping, ports and multimodal transport.

160. Economic co-operation and integration, as well as trade expansion, could be greatly strengthened by the intensification of a number of co-operation activities in the shipping sector, which could have particular importance for subregional, regional and interregional co-operation and integration, and for which it is felt there would be special scope at the present juncture.

161. An activity of particular benefit to trade expansion, as well as to the development of the merchant marines of developing countries, would be the pooling of information on cargo movements and service requirements by developing countries which are situated within the same liner service area, with a view to developing joint sailing arrangements to increase the competitiveness of their liner fleets vis-à-vis those of the traditional maritime countries. Trade expansion could also be facilitated by the development of co-operative management arrangements between shipping lines of developing countries and by the establishment of multinational shipping operations.

162. Shippers in developing countries can increase their bargaining strength in dealing with liner conferences by the formation of shippers' councils and by forming regional associations to represent the interests of all shippers located within a conference service area.

163. Another area of activity to which attention was drawn by the Working Party and where there appears to be particular scope for an extension of co-operation among developing countries in the context of subregional, regional and interregional co-operation schemes is the development of shipbuilding and ship financing arrangements. In this connexion two avenues of approach, which can both strengthen integration schemes, can be identified.

164. The first approach, which depends on the comparative cost advantage of developing countries in a number of areas, including ship repairing and construction, is to expand the number of joint venture operations in developing countries in the context of integration schemes, cargo sharing arrangements, and the opportunities for greater cargo traffic thus afforded. In particular, co-operation could permit the development of complementarity and specialization schemes among developing countries, particularly among those at different levels of development.

165. The second approach involves the use by developing countries of the collective bargaining power of integration groups to develop collaborative arrangements with developed, socialist and other developing countries both for excess fleet disposal and purchase, and also for the purchase of new vessels, on the most advantageous financial terms possible. There is at present a surplus of second-hand shipping tonnage in the world. If appropriate financing arrangements could be evolved, much of this tonnage could be transferred to developing countries to help them build up their merchant fleets, particularly for the expansion of their intra-trade.

166. Such arrangements might be developed through the institution of a clearing house which would bring together developing country borrowers with potential vendors and constructors in a framework which would enable borrowers which belong to integration schemes to use their collective bargaining power to obtain the most advantageous financial terms, through appropriate collective guarantee arrangements, under conditions which could

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[36] See report of the Conference on Economic Co-operation among Developing Countries, held at Mexico City, 13-22 September 1976, (distributed under cover of document TD/B/628 and Add.1), vol. I, part one, sect. A.III.B.1.

[37] See *Official Records of the Trade and Development Board, Seventeenth Session, Supplement No. 2* (TD/B/652), annex. I.

[38] See "Strengthening of subregional, regional and interregional economic co-operation and integration: note by the UNCTAD secretariat" (UNCTAD/ST/ECDC/2) and the report of the Working Party on Trade Expansion and Regional Economic Integration among Developing Countries (TD/B/652), annex I.

permit a full evaluation to be made of the technical and financial merits of vendors' offers.

167. Another activity which might strengthen sub-regional, regional and interregional integration schemes is a closer study of the comparative economics of different forms of transport, in relation to trade expansion schemes and to possible cost economies under preferential trading arrangements. Research programmes in this field might be developed in relation to specific integration schemes and particularly to non-traditional trades. The comparative economics, for example, of air cargo in relation to sea transport, and possible economies of scale, should be studied more closely for many new non-traditional products, both manufactured and unprocessed.

ANNEX

TABLE I. **Multilateral clearing systems among developing**

Concept	Central American Clearing House	LAFTA Payments System and Reciprocal Credit Arrangements	Asian Clearing Union
I. Main economic objective	Use of national currencies	Payments liberalization	Use of national currencies; trade expansion
II. Scope of multilateralization	Full multilateral clearing and settlement	Multilateral settlement after bilateral clearing	Full multilateral clearing and settlement
III. Credits and swing balances			
1. Limit of automatic (net) credit granted by a member	Fixed amount ($3 million) subject to unilateral voluntary increases	Fixed amount in US dollars agreed bilaterally between participants	One twelfth of annual visible exports to other participating countries,[a] subject to unilateral voluntary increase
2. Limit of automatic (net) credit received by a member	No specific limitation; in theory, the net credit received by a single participant might reach $12 million	Fixed amount in US dollars agreed bilaterally between participants	One twenty-fourth of annual visible imports from the other participating countries[a]
IV. Eligible payments and transfers	All current and capital transactions within the Central American Common Market for which payment is made in the national currencies of member countries	The current and capital transactions agreed to between each pair of participants paid exclusively in US dollars, subject to national exchange regulations	Payments from a resident in the territory of one participant to a resident in the territory of another participant and for current international transactions as defined in the Articles of Agreement of IMF, except (*a*) payments for petroleum, petroleum products, natural gas and natural gas products, and (*b*) specified invisible transactions declared ineligible by any participant at the time when the ACU Agreement was signed[c]
V. Currencies used for the settlement of net balances	US dollars, but participants making and receiving final payment may agree bilaterally on any other convertible currency	US dollars exclusively	Any international reserve asset specified by the Board of Directors of the ACU, or the currency of the creditor subject to its specific consent
VI. Unit of account	"Central American peso" ($CA), equal to $US 1.00	US dollar	"Asian monetary unit" (AMU), equal to SDR 1.00 allocated by IMF
VII. Period of settlement	Every six months	Every four months	Every four weeks, but the Board of Directors may by unanimous vote change the length of the settlement period
VIII. Parity and/or exchange rate guarantees	Changes in the parity of the national currency of a participant must be notified without delay to the Clearing House and the other participants, and any outstanding balances as of the date of the parity change must be settled on the basis of the parity value preceding such change	No provisions are contemplated, since the parities of the participants' national currencies are not involved in the calculation of the system's debit or credit positions	Procedures now being considered by the Board of Directors of the Union are based on (*a*) the average rates of exchange between the participants' national currencies and their "intervention currencies", and (*b*) the exchange rates of such "intervention currencies" (i.e., the US dollar and the pound sterling) and the SDR as announced by IMF

Sources: Central American Monetary Council; Secretariat of the Latin American Free Trade Association; Asian Clearing Union; Central Bank of West African States.

[a] Excluding petroleum, petroleum products, natural gas and natural gas products.

[b] Except for special arrangements between the Central Bank of Mali and the Central Bank of West African States.

countries: major characteristics and regulations

West African Clearing House (CCAO)	*CEPGL monetary arrangement*	*RCD Union for Multilateral Payments Arrangements*	*CARICOM Multilateral Clearing Facility*
Use of national currencies; trade liberalization	To expand reciprocal trade relations	Expansion of intraregional trade	Payments liberalization; use of national currencies
Full multilateral clearing and settlement	Partial multilateral settlement after bilateral clearing	Partial multilateral settlement after bilateral clearing	Full multilateral clearing and settlement
20 per cent of the combined annual value of imports (c.i.f.) from and exports (f.o.b.) to the other participating countries, subject to unilateral voluntary increases[b]	No credit facility	$2 million	Fixed amounts of credit and debit limits in US dollars agreed upon by each participant
10 per cent of the combined annual value of imports (c.i.f.) from and exports (f.o.b.) to the other participating countries[b]	No credit facility	$2 million	Fixed amounts of credit and debit limits in US dollars agreed upon by each participant
All current transactions among countries of the participants, except (*a*) such transactions as may be declared ineligible by the Governing Committee of CCAO, and (*b*) payments related to the re-exportation of goods originating in a country whose central bank or monetary authority is not a member of CCAO[d]	All current transactions plus other transactions agreed between the parties	All current transactions except (*a*) invisible payments; (*b*) border trade; (*c*) payments for war materials	All purchases and sales of CARICOM currencies by the commercial banks covering transactions approved by each participant or by the Board
Any convertible currency mutually agreed between the participants making and receiving final payment	Convertible currencies	US dollars	US dollars
The "unit of account of West Africa" (UCAO), whose parity value must be fixed by the Governing Committee of CCAO	Local currencies of participating countries	US dollar	US dollar
Every month	Every three months	Every year	Every three months
The Agreement provides for fixed parities between the participants' national currencies and the UCAO, which must be guaranteed by the participants; the procedure for application of these principles must be established by the Governing Committee of CCAO	The agreement provides for the prevailing rates of exchange on the day when the payment is made	As the unit of account is in US dollars, no provision for exchange rate parity is required	As the unit of account is in US dollars, no provision for exchange rate parity is required

[c] No detailed list of much invisible transactions in available. The relaxation and eventual removal of such restrictions is provided for in art. V, sect. 2 (*c*), of the ACU Agreement.

[d] Payments arising from transactions among the member countries of the West African Monetary Union are not subject to the provisions of the CCAO Agreement.

TABLE II. Direction of de

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	World					Developed countries					
				Exports	Imports				Exports	Imports	
	Exports	Imports	Balance	Percentage		Exports	Imports	Balance	Percentage		Expc
TOTAL DEVELOPING COUNTRIES	195 503.0	185 427.8	10 075.2	100.0	100.0	129 828.6	123 507.7	6 320.9	66.4	66.6	42 35
Developing countries in Latin America (ECLA)	43 042.3	53 616.4	−10 574.1	100.0	100.0	27 904.4	35 304.2	−7 399.8	64.2	67.1	11 15
LAFTA	30 027.7	37 626.7	−7 599.0	100.0	100.0	18 036.0	28 077.7	−10 041.7	60.1	75.8	8 91
Argentina	2 961.3	3 945.3	−984.0	100.0	100.0	1 241.4	2 603.9	−1 362.5	41.9	65.9	1 16
Brazil	8 669.5	13 758.3	−4 908.8	100.0	100.0	4 899.0	9 043.9	−4 144.9	56.3	66.9	2 3
Chile	1 661.0	1 811.0	−150.0	100.0	100.0	1 070.0	1 090.0	−20.0	64.4	60.2	4
Mexico	2 993.1	6 571.5	−3 578.4	100.0	100.0	2 385.5	5 878.4	−3 492.9	79.7	89.4	4
Paraguay	174.1	206.0	−31.9	100.0	100.0	100.3	86.5	13.8	57.6	42.0	
Uruguay	381.2	516.5	−135.3	100.0	100.0	171.3	212.3	−41.0	44.9	41.1	1
Andean Group											
LAFTA	13 187.5	10 998.1	2 189.4	100.0	100.0	8 168.5	9 162.7	−994.2	62.1	83.4	4 2
Andean Common Market											
Bolivia											
LAFTA	443.0	558.0	−115.0	100.0	100.0	258.0	340.0	−82.0	58.2	60.9	1
Andean Common Market											
Colombia											
LAFTA	1 464.9	1 494.8	−29.9	100.0	100.0	1 059.7	1 223.1	−163.4	72.4	81.8	3
Andean Common Market											
Ecuador											
LAFTA	974.0	987.0	−13.0	100.0	100.0	495.6	806.7	−311.1	50.9	81.7	3
Andean Common Market											
Peru											
LAFTA	1 315.0	2 151.0	−836.0	100.0	100.0	757.1	1 639.0	−881.9	57.5	76.2	2
Andean Common Market											
Venezuela											
LAFTA	8 990.6	5 807.3	3 183.3	100.0	100.0	5 598.1	5 153.9	444.2	62.1	88.6	3 1
Andean Common Market											
CACM	2 295.7	2 945.8	−650.1	100.0	100.0	1 526.4	1 820.9	−294.5	66.6	61.7	6
Costa Rica	494.1	694.0	−199.9	100.0	100.0	338.4	435.2	−96.8	68.5	62.7	1
El Salvador	513.4	598.0	−84.6	100.0	100.0	333.5	362.3	−28.8	65.0	60.6	1
Guatemala	623.4	732.6	−109.2	100.0	100.0	395.6	471.5	−75.9	63.5	64.4	2
Honduras	293.3	404.3	−111.0	100.0	100.0	221.4	257.7	−36.3	75.5	63.7	
Nicaragua	371.5	516.9	−145.4	100.0	100.0	237.5	294.2	−56.7	63.9	56.9	1
CARICOM	3 178.4	3 497.2	−318.8	100.0	100.0	2 395.5	2 020.8	374.7	75.4	57.8	5
Barbados	87.7	216.4	−128.7	100.0	100.0	69.4	139.3	−69.9	79.1	64.4	
Belize	67.1	88.5	−21.4	100.0	100.0	55.0	68.0	−13.0	82.0	76.8	
Guyana	360.7	344.3	16.4	100.0	100.0	240.9	239.0	1.9	66.8	69.4	
Jamaica	793.2	1 135.7	−342.5	100.0	100.0	625.4	795.0	−169.6	78.9	70.0	1
Trinidad and Tobago	1 772.7	1 488.5	284.2	100.0	100.0	1 346.8	634.0	712.8	76.0	42.6	2
ECCM	97.0	223.8	−126.8	100.0	100.0	58.0	145.5	−87.5	60.0	65.0	
Other ECLA	7 540.5	9 546.7	−2 006.2	100.0	100.0	5 946.5	3 384.8	2 561.7	79.1	35.5	1 0
Bahamas	2 508.3	2 696.9	−188.6	100.0	100.0	2 237.0	263.1	1 973.9	89.3	9.8	2
Cuba	1 123.7	1 938.3	−814.6	100.0	100.0	586.0	1 468.0	−882.0	52.2	75.7	1
Dominican Republic	894.0	786.0	108.0	100.0	100.0	783.0	637.0	146.0	87.6	81.0	
Haiti	81.2	142.5	−61.3	100.0	100.0	79.0	122.1	−43.1	97.3	85.7	
Netherlands Antilles	2 393.1	3 788.9	−395.8	100.0	100.0	1 803.1	325.9	1 477.2	75.4	11.7	5
Panama	280.2	892.1	−611.9	100.0	100.0	217.4	386.7	−169.3	77.6	43.3	
Suriname	260.0	302.0	−42.0	100.0	100.0	241.0	182.0	59.0	92.7	60.3	
Developing countries in Africa (ECA)	33 680.2	36 341.8	−2 661.6	100.0	100.0	24 744.7	27 109.6	−2 364.9	73.5	74.6	5 0
ECOWAS	11 636.7	10 410.6	1 226.1	100.0	100.0	9 201.8	8 289.6	912.2	79.1	79.6	1 7
Benin	57.0	197.0	−140.0	100.0	100.0	33.0	144.0	−111.0	57.9	73.1	
Cape Verde	2.0	58.0	−56.0	100.0	100.0	1.3	43.5	−42.2	65.0	75.0	
Gambia	48.1	48.7	−0.6	100.0	100.0	39.9	27.9	12.0	83.0	57.3	
Ghana	728.2	787.9	−59.7	100.0	100.0	489.3	552.5	−63.2	67.2	70.1	
Guinea	143.0	164.0	21.0	100.0	100.0	83.0	117.0	−34.0	58.0	71.3	
Guinea-Bissau	6.1	38.0	−31.9	100.0	100.0	1.0	8.2	−7.2	16.4	21.6	
Nigeria	7 983.4	6 041.2	1 942.2	100.0	100.0	6 568.4	5 252.8	1 315.6	82.1	87.2	1 2
Togo	124.8	173.9	−49.1	100.0	100.0	115.1	138.3	−23.2	92.2	79.5	
CEAO											
ECOWAS	2 014.2	2 374.7	−360.5	100.0	100.0	1 392.4	1 629.1	−236.7	69.1	68.6	3
CEAO											
Ivory Coast											
ECOWAS	1 181.6	1 126.5	55.1	100.0	100.0	827.5	809.2	18.3	70.0	71.9	2
CEAO											
Mali											
ECOWAS	36.5	190.1	−153.6	100.0	100.0	9.5	99.4	−89.9	26.0	52.3	
CEAO											
Mauritania											
ECOWAS	199.0	227.0	−28.0	100.0	100.0	170.0	173.0	−3.0	85.4	76.2	
CEAO											
Niger											
ECOWAS	91.2	98.9	−7.7	100.0	100.0	63.8	58.9	−4.9	67.0	59.6	
CEAO											

es' trade by main regions, 1975

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veloping countries				Interregional					Regional, excluding economic groupings					Economic groupings				
		Exports	Imports				Exports	Imports				Exports	Imports				Exports	Imports
ts	Balance	Percentage		Exports	Imports	Balance	Percentage		Exports	Imports	Balance	Percentage		Exports	Imports	Balance	Percentage	
).9	263.6	21.6	22.7	20 939.3	22 136.1	−1 196.8	10.7	11.9	13 275.2	12 756.5	518.7	6.8	6.9	8 286.7	7 374.7	912.0	4.2	4.0
7.7	−5 655.2	25.7	32.0	2 069.3	8 257.5	−6 188.2	4.8	15.7	4 315.4	3 710.4	605.0	9.9	7.0	4 807.9	4 879.8	−71.9	11.0	9.3
5.4	394.0	29.7	23.0	1 453.2	4 122.9	−2 669.7	4.8	11.1	3 465.1	336.6	3 128.5	11.6	0.9	4 001.1	4 065.9	−64.8	13.3	11.0
2.1	−61.1	39.2	30.9	237.8	289.5	−51.7	8.0	7.3	167.7	24.9	142.8	5.7	0.6	755.5	907.7	−152.2	25.5	23.0
4.1	−1 793.1	27.2	30.7	992.6	3 287.9	−2 295.3	11.4	24.3	171.4	90.8	80.6	2.0	0.7	1 197.0	775.4	421.6	13.8	5.7
8.0	−241.8	26.9	38.0	52.0	182.0	−130.0	3.1	10.0	4.2	7.0	−2.8	0.3	0.4	390.0	499.0	−109.0	23.5	27.6
4.0	−107.3	16.6	9.2	44.7	87.4	−42.7	1.5	1.3	183.1	102.5	80.6	6.1	1.6	268.9	414.1	−145.2	9.0	6.3
7.0	−48.8	39.2	56.8	5.4	28.9	−23.5	3.1	14.0	0.5	3.1	−2.6	0.3	1.5	62.3	85.0	−22.7	35.8	41.3
2.7	−150.2	34.8	54.7	22.6	125.9	−103.3	5.9	24.4	0.3	4.0	−3.7	0.1	0.8	109.6	152.8	−43.2	28.8	29.5
7.5	2 796.3	32.3	13.3	98.1	121.3	−23.2	0.7	1.1	2 937.9	104.3	2 833.6	22.3	1.0	1 217.8	1 231.9	−14.1	9.3	11.2
														470.7	487.4	−16.7	3.6	4.4
4.5	−34.5	36.1	34.9	0.0	2.5	−2.5	0.0	0.5	1.0	0.0	1.0	0.2	0.0	159.0	192.0	−33.0	35.9	34.4
														12.0	19.0	−7.0	2.7	3.4
9.3	126.9	22.3	13.3	11.1	19.9	−8.8	0.8	1.3	82.1	14.8	67.3	5.6	1.0	233.0	164.6	68.4	15.9	11.0
														166.0	59.4	106.6	11.3	4.0
1.3	248.4	39.6	13.9	17.7	9.6	8.1	1.8	1.0	137.0	9.7	127.3	14.1	1.0	231.0	118.0	113.0	23.7	11.9
														131.0	56.0	75.0	13.5	5.7
3.9	−180.8	21.1	21.3	33.7	35.7	−2.0	2.6	1.7	27.4	20.2	7.2	2.1	0.9	217.0	403.0	−186.0	16.4	18.7
														43.0	253.0	−210.0	3.3	11.8
7.5	2 636.3	34.5	8.0	35.6	53.6	−18.0	0.4	0.9	2 690.4	59.6	2 630.8	29.9	1.0	377.8	354.3	23.5	4.2	6.1
														118.7	100.0	18.7	1.3	1.7
8.5	−372.6	30.3	36.2	48.4	21.2	27.2	2.1	0.7	111.3	528.1	−416.8	4.8	17.9	536.2	519.2	17.0	23.4	17.6
4.9	−92.4	30.9	35.2	7.5	5.8	1.7	1.5	0.8	37.8	124.4	−86.6	7.7	17.9	107.2	114.7	−7.5	21.7	16.5
6.4	−66.2	31.2	37.9	5.2	3.6	1.6	1.0	0.6	13.2	85.9	−72.7	2.6	14.4	141.8	136.9	4.9	27.6	22.9
7.1	−44.1	32.6	33.7	15.5	3.3	12.2	2.5	0.5	19.5	140.6	−121.1	3.1	19.2	168.0	103.2	64.8	27.0	14.0
9.5	−75.5	21.8	34.5	1.1	2.1	−1.0	0.4	0.5	36.3	85.7	−49.4	12.4	21.2	26.6	51.7	−25.1	9.0	12.8
0.6	−94.4	31.3	40.7	19.1	6.4	12.7	5.2	1.2	4.5	91.5	−87.0	1.2	17.7	92.6	112.7	−20.1	24.9	21.8
0.2	−899.2	16.1	40.3	124.0	794.8	−670.8	3.9	22.7	116.5	320.7	−204.2	3.7	9.2	270.6	294.7	−24.1	8.5	8.4
4.9	−57.8	19.5	34.6	0.1	3.1	−3.0	0.1	1.4	1.1	36.4	−35.3	1.3	16.8	15.9	35.4	−19.5	18.1	16.4
8.0	−6.2	17.6	20.3	3.6	1.6	2.0	5.4	1.8	6.4	13.3	−6.9	9.5	15.0	1.8	3.1	−1.3	2.7	3.5
4.0	−28.1	18.3	27.3	11.5	5.7	5.8	3.2	1.7	9.2	14.3	−5.1	2.6	4.2	45.2	74.0	−28.8	12.5	21.4
2.0	−210.5	14.1	28.4	61.8	13.5	48.3	7.8	1.2	14.9	213.0	−198.1	1.9	18.8	34.8	95.5	−60.7	4.4	8.4
0.9	−558.5	15.9	56.5	43.6	766.5	−722.9	2.5	51.5	80.5	32.5	48.0	4.5	2.2	158.3	41.9	116.4	8.9	2.8
0.4	−38.1	23.0	27.0	3.4	4.4	−1.0	3.5	2.0	4.4	11.2	−6.8	4.5	5.0	14.6	44.8	−30.2	15.0	20.0
3.6	−4 777.4	14.2	61.3	443.7	3 318.6	−2 874.9	5.9	34.8	622.5	2 525.0	−1 902.5	8.3	26.5	0.0	0.0	0.0	0.0	0.0
8.0	−2 201.0	9.1	90.1	122.4	2 288.0	−2 165.6	4.9	84.9	104.6	140.0	−35.4	4.2	5.2	0.0	0.0	0.0	0.0	0.0
5.3	−83.8	17.0	14.2	185.0	54.3	139.7	16.5	2.3	6.5	230.0	−223.5	0.5	11.9	0.0	0.0	0.0	0.0	0.0
5.0	−63.0	6.9	15.9	52.0	7.0	45.0	5.8	0.9	10.0	118.0	−108.0	1.1	15.0	0.0	0.0	0.0	0.0	0.0
8.0	−16.5	1.7	12.6	0.1	1.3	−1.2	0.0	0.9	1.4	16.7	−15.3	1.7	11.7	0.0	0.0	0.0	0.0	0.0
3.2	−1 903.5	23.0	88.1	77.0	771.1	−694.1	3.2	27.7	472.7	1 682.1	−1 209.4	19.8	60.4	0.0	0.0	0.0	0.0	0.0
1.1	−404.6	9.5	48.3	7.2	154.9	−147.7	2.6	17.4	19.3	276.2	−256.9	6.9	30.9	0.0	0.0	0.0	0.0	0.0
3.0	−105.0	3.1	37.4	0.0	51.0	−51.0	0.0	16.9	8.0	62.0	−54.0	3.1	20.5	0.0	0.0	0.0	0.0	0.0
5.4	−477.8	14.9	15.1	3 330.3	4 208.8	−878.5	9.9	11.6	929.2	696.6	232.6	2.8	1.9	783.1	651.2	131.9	2.3	1.8
1.6	506.0	14.9	11.8	1 183.4	636.4	547.0	10.2	6.1	80.3	216.7	−136.4	0.7	2.1	473.9	378.5	95.4	4.0	3.6
0.0	−28.0	21.1	20.3	0.0	16.0	−16.0	0.0	8.1	0.6	11.0	−10.4	1.1	5.6	11.4	13.0	−1.6	20.0	6.6
3.1	−2.5	30.0	5.3	0.0	1.0	−1.0	0.0	1.7	0.5	1.4	−0.9	25.0	2.4	0.1	0.7	−0.6	5.0	1.2
9.8	−8.5	2.7	20.1	0.0	6.1	−6.1	0.0	12.5	0.0	0.6	−0.6	0.0	1.2	1.3	3.1	−1.8	2.7	6.4
3.2	−100.4	10.0	22.0	54.0	58.0	−4.0	7.4	7.4	6.4	46.8	−40.4	0.9	5.9	12.4	68.4	−56.0	1.7	8.7
1.6	−17.6	16.8	25.4	17.5	21.0	−3.5	12.2	12.8	6.0	18.0	−12.0	4.2	11.0	0.5	2.6	−2.1	0.4	1.6
3.6	−2.4	19.7	9.5	0.0	2.5	−2.5	0.0	6.6	0.3	0.4	−0.1	4.9	1.1	0.9	0.7	0.2	14.8	1.8
4.4	865.5	15.4	6.0	1 078.0	312.2	765.8	13.5	5.2	3.7	26.9	−23.2	0.0	0.4	148.2	25.3	122.9	1.9	0.4
0.0	−12.3	6.2	11.5	0.0	10.3	−10.3	0.0	5.9	0.7	1.5	−0.8	0.6	0.9	7.0	8.2	−1.2	5.6	4.7
1.5	−109.6	18.4	20.3	27.6	144.1	−116.5	1.4	6.1	60.8	104.2	−43.4	3.0	4.4	283.5	233.2	50.3	14.0	9.8
														222.0	173.8	48.2	11.0	7.3
2.2	−5.5	18.3	19.7	24.0	94.1	−70.1	2.0	8.4	48.0	80.6	−32.6	4.1	7.1	144.7	47.5	97.2	12.2	4.2
														119.9	23.4	96.5	10.1	8.6
1.1	−42.6	50.7	32.1	0.8	12.4	−11.6	2.2	6.5	0.5	1.5	−1.0	1.4	0.8	17.2	47.2	−30.0	47.1	24.8
														16.7	46.7	−30.0	45.8	24.6
6.0	40.0	3.0	20.3	2.6	14.0	−11.4	1.3	6.2	3.0	1.0	2.0	1.5	0.4	0.4	31.0	−30.6	0.2	13.7
														0.0	28.0	−28.0	0.0	12.3
3.1	−5.8	29.9	33.5	0.0	2.5	−2.5	0.0	2.5	0.9	8.7	−7.8	1.0	8.8	26.4	21.9	4.5	28.9	22.2
														3.6	17.8	−14.2	3.9	18.0

TABLE II. Direction of deve

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	World					Developed countries					
				Exports	Imports				Exports	Imports	
	Exports	Imports	Balance	Percentage		Exports	Imports	Balance	Percentage		Exp
Senegal											
ECOWAS	462.4	581.0	−118.6	100.0	100.0	304.0	387.0	−83.0	65.8	66.6	
CEAO											
Upper Volta											
ECOWAS	43.5	151.2	−107.7	100.0	100.0	17.6	101.6	−84.0	40.5	67.2	
CEAO											
MARIUN	529.9	527.2	2.7	100.0	100.0	478.4	376.3	102.1	90.3	71.4	
Liberia	393.9	331.2	62.7	100.0	100.0	352.9	256.3	96.6	89.6	77.4	
Sierra Leone	136.0	196.0	−60.0	100.0	100.0	125.5	120.0	5.5	92.3	61.2	
UDEAC	1 614.1	1 277.6	336.5	100.0	100.0	1 237.0	1 078.5	158.5	76.6	84.4	2
Central African Republic	47.2	68.2	−21.0	100.0	100.0	38.1	53.6	−15.5	80.7	78.6	
Congo	178.7	164.8	13.9	100.0	100.0	147.6	128.4	19.2	82.6	77.9	
Gabon	941.9	446.3	495.6	100.0	100.0	741.4	395.1	346.3	78.7	88.5	1
United Republic of Cameroon	446.3	598.3	−152.0	100.0	100.0	309.9	501.4	−191.5	69.4	83.8	
CEPGL	938.9	1 090.8	−151.9	100.0	100.0	608.3	838.2	−229.9	64.8	76.9	3
Burundi	32.0	62.0	−30.0	100.0	100.0	29.0	43.8	−14.8	90.6	70.6	
Rwanda	42.0	96.0	−54.0	100.0	100.0	41.6	61.0	−19.4	99.0	63.5	
Zaire	864.9	932.8	−67.9	100.0	100.0	537.7	733.4	−195.7	62.2	78.6	3
ESAPTA	4 059.0	5 022.4	−963.4	100.0	100.0	2 800.8	3 464.6	−663.8	68.9	68.9	7
Antola	911.0	452.0	459.0	100.0	100.0	685.0	319.0	366.0	72.2	70.6	
Djibouti	32.0	111.0	−79.0	100.0	100.0	18.0	65.0	−47.0	56.3	58.6	
Ethiopia	215.2	294.0	−78.8	100.0	100.0	115.1	193.4	−78.3	53.5	65.8	
Kenya	456.0	910.8	−454.8	100.0	100.0	240.5	586.3	−345.8	52.7	64.4	1
Madagascar	294.3	366.9	−72.6	100.0	100.0	161.7	247.6	−85.9	54.9	67.5	
Malawi	154.6	215.4	−60.8	100.0	100.0	129.3	179.7	−50.4	83.6	83.4	
Mauritius	298.0	332.0	−34.0	100.0	100.0	289.0	228.0	61.0	97.0	68.7	
Mozambique	198.0	410.0	−212.0	100.0	100.0	90.0	263.0	−173.0	45.5	64.1	
Somalia	88.6	154.7	−66.1	100.0	100.0	7.2	85.1	−77.9	8.1	55.0	
Uganda	263.0	128.7	134.3	100.0	100.0	202.8	99.7	103.1	77.1	77.5	
United Republic of Tanzania	343.2	718.2	−375.0	100.0	100.0	177.2	481.7	−304.5	51.6	67.1	1
Zambia	805.1	928.7	−123.6	100.0	100.0	685.0	716.1	−31.1	85.1	77.1	
PCCM	6 689.9	9 939.2	−3 249.3	100.0	100.0	5 053.1	7 662.1	−2 609.0	75.3	77.4	6
Algeria	4 290.7	5 974.1	−1 683.4	100.0	100.0	3 611.7	4 910.6	1 298.9	84.2	82.2	2
Morocco	1 543.0	2 547.3	−1 004.3	100.0	100.0	937.9	1 669.0	−731.1	60.8	65.6	2
Tunisia	856.2	1 417.8	−561.6	100.0	100.0	503.5	1 082.5	−579.0	58.8	76.3	1
Other ECA	8 741.6	8 601.2	140.4	100.0	100.0	5 843.7	5 776.6	67.1	66.6	67.0	1 3
Chad	48.0	133.0	−85.0	100.0	100.0	28.0	87.0	−59.0	58.3	65.4	
Egypt[a]	1 401.9	3 933.7	−2 531.8	100.0	100.0	192.6	2 555.0	−2 362.4	13.7	64.9	2
Equatorial Guinea	24.0	24.0	0.0	100.0	100.0	8.4	8.5	−0.1	35.0	35.4	
Libyan Arab Jamahiriya	6 834.7	3 542.5	3 292.2	100.0	100.0	5 402.0	2 536.3	2 865.7	78.9	71.5	9
Sao Tome and Principe	9.0	11.0	−2.0	100.0	100.0	5.0	6.6	−1.6	55.6	60.0	
Sudan	424.0	957.0	−533.0	100.0	100.0	207.7	583.2	−375.5	49.0	60.9	1
Developing countries in east and southern Asia and the Pacific (ESCAP)	57 541.9	60 889.2	−3 347.3	100.0	100.0	40 340.2	40 170.2	170.0	70.1	66.0	12 1
ASEAN	20 977.3	23 485.0	−2 507.7	100.0	100.0	13 313.2	14 732.7	−1 419.5	63.5	62.7	5 5
Indonesia	7 130.2	4 769.7	2 360.5	100.0	100.0	5 436.2	3 335.5	2 100.7	76.2	69.9	1 3
Malaysia	3 846.6	3 524.7	321.9	100.0	100.0	2 223.8	2 229.2	−5.4	57.8	63.2	1 2
Philippines	2 292.4	3 776.2	−1 483.8	100.0	100.0	1 974.9	2 676.7	−701.8	86.1	70.9	2
Singapore	5 377.1	8 135.0	−2 757.9	100.0	100.0	2 417.5	4 212.2	−1 794.7	45.0	51.8	1 6
Thailand	2 331.0	3 279.4	−948.4	100.0	100.0	1 260.8	2 279.1	−1 018.3	54.1	69.5	9
Bangkok Agreement	10 321.4	15 614.1	−5 292.7	100.0	100.0	6 304.9	10 188.2	−3 883.3	61.1	65.3	2 8
Bangladesh	327.0	1 267.0	−940.0	100.0	100.0	133.0	730.0	−597.0	40.7	57.6	1
India	4 354.8	6 289.5	−1 934.7	100.0	100.0	2 002.2	3 799.0	−1 796.8	46.0	60.4	1 5
Lao People's Democratic Republic	11.3	42.0	−30.7	100.0	100.0	1.9	19.0	−17.1	16.8	45.2	
Republic of Korea	5 070.6	7 271.0	−2 200.4	100.0	100.0	3 962.6	5 295.3	−1 332.7	78.1	72.8	9
Sri Lanka	557.7	744.6	−186.9	100.0	100.0	205.2	344.9	−139.7	36.8	46.3	2
Other ESCAP	25 451.3	20 934.0	4 517.3	100.0	100.0	19 997.3	14 547.8	5 449.5	78.6	69.5	3 7
Afghanistan	223.4	349.6	−126.2	100.0	100.0	62.1	168.3	−106.2	27.8	48.1	
Brunei	1 022.7	269.4	735.3	100.0	100.0	956.7	186.9	769.8	93.5	69.4	
Burma	158.0	193.0	−35.0	100.0	100.0	72.1	120.0	−47.9	45.6	62.2	
Democratic Kampuchea	5.0	93.0	−88.0	100.0	100.0	4.0	77.0	−73.0	80.0	82.8	
Hong Kong	4 611.9	6 756.9	−2 145.0	100.0	100.0	3 775.9	3 587.8	188.1	81.9	53.1	7
Iran[b]	18 264.0	10 346.0	7 918.0	100.0	100.0	14 708.0	8 570.0	6 138.0	80.5	82.8	2 1
Maldives	4.0	13.0	−9.0	100.0	100.0	2.0	10.0	−8.0	50.0	76.9	
Nepal	37.0	109.0	−72.0	100.0	100.0	6.4	38.4	−32.0	17.3	35.2	
Pakistan[b]	1 031.3	2 153.1	−1 121.8	100.0	100.0	349.1	1 286.4	−937.3	33.9	59.7	5
Viet Nam	94.0	651.0	−557.0	100.0	100.0	61.0	503.0	−442.0	64.9	77.3	
Oceania	791.9	856.1	−64.2	100.0	100.0	724.8	701.5	23.3	91.5	81.9	
Fiji	127.9	267.3	−139.4	100.0	100.0	113.2	212.4	−99.2	88.5	79.5	
Nauru	82.0	22.0	60.0	100.0	100.0	80.0	22.0	58.0	97.6	100.0	
Papua New Guinea	475.0	483.0	−8.0	100.0	100.0	426.0	394.0	32.0	89.7	81.6	
Samoa	7.0	36.8	−29.8	100.0	100.0	6.6	31.1	−24.5	94.3	84.5	
Tonga	75.0	36.0	39.0	100.0	100.0	74.0	32.0	42.0	98.7	88.9	
Tuvalu and Gilbert Islands	25.0	11.0	14.0	100.0	100.0	25.0	10.0	15.0	100.0	90.9	

...s' trade by main regions, 1975 (*continued*)

...rs)

...eloping countries				Interregional					Regional, excluding economic groupings					Economic groupings				
		Exports	Imports				Exports	Imports				Exports	Imports				Exports	Imports
...s	Balance	Percentage		Exports	Imports	Balance	Percentage		Exports	Imports	Balance	Percentage		Exports	Imports	Balance	Percentage	
.0	−2.0	16.9	13.8	0.0	18.0	−18.0	0.0	3.1	8.0	12.0	−4.0	1.7	2.1	70.0	50.0	20.0	15.2	8.6
														60.4	25.3	35.1	13.1	4.4
.1	−13.7	58.4	25.9	0.2	3.1	−2.9	0.5	2.1	0.4	0.4	0.0	0.9	0.3	24.8	35.6	−10.8	57.0	23.5
														21.4	32.6	−11.2	49.2	21.6
.4	−78.2	3.1	17.9	6.3	65.2	−58.9	1.2	12.4	1.3	5.9	−4.6	0.3	1.1	8.6	23.3	−14.7	1.6	4.4
.4	−44.5	3.0	17.0	6.3	52.2	−45.9	1.6	15.8	0.8	1.4	−0.6	0.2	0.4	4.8	2.8	2.0	1.2	0.8
.0	−33.7	3.2	19.4	0.0	13.0	−13.0	0.0	6.6	0.5	4.5	−4.0	0.4	2.3	3.8	20.5	−16.7	2.8	10.5
.3	126.6	17.3	11.9	147.1	36.7	110.4	9.1	2.9	51.0	42.1	8.9	3.2	3.3	80.8	73.5	7.3	5.0	5.8
.6	−9.6	10.6	21.4	0.5	7.6	−7.1	1.0	11.1	3.9	3.8	0.1	8.3	5.6	0.6	3.2	−2.6	1.3	4.7
.0	8.1	17.4	13.9	12.3	2.2	10.1	6.9	1.3	6.9	9.9	−3.0	3.9	6.0	11.9	10.9	1.0	6.6	6.6
.2	128.0	18.8	11.0	132.8	9.6	123.2	14.1	2.2	12.8	15.3	−2.5	1.4	3.4	31.6	24.3	7.3	3.3	5.4
.5	0.1	14.7	11.0	1.5	17.3	−15.8	0.3	2.9	27.4	13.1	14.3	6.1	2.2	36.7	35 1	1.6	8.3	5.9
.5	149.8	33.2	14.8	25.2	71.8	−46.6	2.7	6.6	283.6	86.2	197.4	30.2	7.9	2.5	3.5	−1.0	0.3	0.3
.7	−7.1	5.0	14.0	0.4	4.9	−4.5	1.3	7.9	0.3	2.8	−2.5	0.9	4.5	0.9	1.0	−0.1	2.8	1.6
.6	−24.0	1.4	25.6	0.0	10.7	−10.7	0.0	11.1	0.2	12.0	−11.8	0.5	12.5	0.4	1.9	−1.5	0.9	2.0
.2	180.9	35.7	13.7	24.8	56.2	−31.4	2.9	6.0	283.1	71.4	211.7	32.7	7.7	1.2	0.6	0.6	0.1	0.0
.2	−326.4	17.7	20.8	467.4	940.0	−472.6	11.5	18.7	129.9	24.3	105.6	3.2	0.5	121.5	80.9	40.6	3.0	1.6
.5	0.2	5.0	10.1	17.2	38.7	−21.5	1.9	8.6	5.0	2.7	2.3	0.5	0.6	23.5	4.1	19.4	2.6	0.9
.0	−26.0	28.1	31.5	3.0	28.0	−25.0	9.4	25.2	6.0	7.0	−1.0	18.7	6.3	0.0	0.0	0.0	0.0	0.0
.7	12.3	38.6	24.0	41.6	63.9	−22.3	19.3	21.7	20.4	1.2	19.2	9.5	0.4	21.0	5.6	15.4	9.8	1.9
.2	−158.1	24.8	29.8	44.7	267.5	−222.8	9.8	29.4	29.5	1.5	28.0	6.5	0.2	38.9	2.2	36.7	8.5	0.2
.9	−3.4	31.8	26.4	79.9	90.5	−10.6	27.2	24.7	8.1	3.4	4.7	2.7	0.9	5.5	3.0	2.5	1.9	0.8
.0	−7.9	9.8	10.7	1.2	12.4	−11.2	0.8	5.8	8.5	0.0	8.5	5.5	0.0	5.4	10.6	−5.2	3.5	4.9
.5	−79.0	2.9	26.3	3.0	76.1	−73.1	1.0	22.9	2.3	1.1	1.2	0.8	0.3	3.2	10.3	−7.1	1.1	3.1
.0	−17.0	19.2	13.4	25.0	48.6	−23.6	12.6	11.8	6.7	0.0	6.7	3.4	0.0	6.3	6.4	−0.1	3.2	1.6
.1	27.6	83.2	29.8	70.8	30.2	40.6	79.9	19.5	0.2	3.4	−3.2	0.2	2.2	2.7	12.5	−9.8	3.1	8.1
.0	22.3	14.2	11.7	20.1	14.5	5.6	7.7	11.3	16.3	0.3	16.0	6.2	0.2	0.9	0.2	0.7	0.3	0.2
.2	−6.3	34.6	17.4	98.5	116.2	−17.7	28.7	16.2	15.4	2.2	13.2	4.4	0.3	5.0	6.8	−1.8	1.5	0.9
.1	−91.1	10.3	18.8	62.4	153.4	−91.0	7.8	16.5	11.5	1.5	10.0	1.4	0.2	9.1	19.2	−10.1	1.1	2.1
.7	−660.6	9.6	13.1	375.3	1 123.6	−748.3	5.6	11.3	186.3	99.6	86.7	2.8	1.0	79.5	78.5	1.0	1.2	0.8
.0	−291.9	6.8	9.8	188.9	471.9	−283.0	4.4	7.9	97.3	49.1	48.2	2.2	0.8	6.9	64.0	−57.1	0.2	1.1
.8	−295.2	14.8	20.6	158.0	483.6	−325.6	10.3	19.0	34.5	37.4	−2.9	2.2	1.5	36.1	2.8	33.3	2.3	0.1
.9	−73.5	14.0	13.6	28.4	168.1	−139.7	3.3	11.9	54.5	13.1	41.4	6.4	0.9	36.5	11.7	24.8	4.3	0.8
.1	−273.2	15.2	18.6	1 131.9	1 400.3	−268.4	12.9	16.2	198.1	227.7	−29.6	2.3	2.6	24.9	36.3	−11.4	0.3	0.4
.5	−17.1	34.2	25.2	0.0	4.2	−4.2	0.0	3.2	16.4	29.3	−12.9	34.2	22.0	0.0	0.0	0.0	0.0	0.0
3	−533.5	17.6	19.8	177.1	720.9	−543.8	12.6	18.3	69.8	84.3	−14.5	5.0	2.1	24.9	36.3	−11.4	1.8	0.9
.6	−3.1	14.6	27.5	1.5	0.5	1.0	6.3	2.1	2.0	6.1	−4.1	8.3	25.4	0.0	0.0	0.0	0.0	0.0
6	404.2	13.5	14.8	857.0	448.1	408.9	12.5	12.7	70.8	75.5	−4.7	1.0	2.1	0.0	0.0	0.0	0.0	0.0
3	−0.5	31.1	30.0	0.0	0.0	0.0	0.0	0.0	2.8	3.3	−0.5	31.1	30 0	0.0	0.0	0.0	0.0	0.0
8	−123.2	31.3	26.7	96.3	226.6	−130.3	22.7	23.7	36.3	29.2	7.1	8.6	3.0	0.0	0.0	0.0	0.0	0.0
4	−453.3	21.0	20.6	4 709.1	6 205.6	−1 496.5	8.2	10.2	4 882.5	4 744.0	138.5	8.5	7.8	2 610.1	1 684.9	925.2	4.5	2.8
5	−670.4	26.3	26.4	1 300.1	3 241.5	−1 941.4	6.2	13.8	1 882.9	1 545.9	337.0	9.0	6.6	2 334.1	1 400.1	934.0	11.1	6.0
1	466.9	19.6	19.5	480.6	231.1	249.5	6.7	4.9	184.3	287.0	−102.7	2.6	6.0	732.1	412.0	320.1	10.3	8.6
1	257.7	33.6	29.5	137.6	277.2	−139.6	3.6	7.9	225.4	224.2	1.2	5.8	6.4	930.8	534.7	396.1	24.2	5.2
5	−727.2	9.6	25.1	60.0	664.2	−604.2	2.6	17.6	100.1	103.0	−2.9	4.4	2.7	60.2	180.3	−120.1	2.6	4.8
3	−826.0	30.4	30.2	483.8	1 463.0	−979.2	9.0	18.0	904.6	796.0	108.6	16.8	9.8	244.9	200.3	44.6	4.6	2.4
5	158.2	41.7	24.8	138.1	606.0	−467.9	5.9	18.5	468.5	135.7	332.8	20.1	4.1	366.1	72.8	293.3	15.7	2.2
0	100.6	27.7	17.7	1 453.8	1 810.7	−356.9	14.1	11.6	1 256.5	790.5	466.0	12.2	5.1	148.3	156.8	−8.5	1.4	1.0
.0	−107.0	45.6	20.2	116.0	109.0	7.0	35.5	8.6	25.0	60.0	−35.0	7.7	4.7	8.0	87.0	−79.0	2.4	6.9
3	054.6	35.9	8.1	792.5	348.9	443.6	18.2	5.5	647.3	154.8	492.5	14.8	2.5	125.1	6.6	118.5	2.9	0.1
0	−14.0	79.6	54.8	0.0	0.0	0.0	0.0	0.0	9.0	23.0	−14.0	79.6	54.8	0.0	0.0	0.0	0.0	0.0
3	−760.3	18.2	23.2	421.7	1 245.1	−823.4	8.3	17.1	489.8	400.9	88.9	9.7	5.5	13.5	39.3	−25.8	0.2	0.6
4	−72.7	37.8	38.1	123.6	107.7	15.9	22.2	14.5	85.4	151.8	−66.4	15.3	20.4	1.7	23.9	−22.2	0.3	3.2
5	225.2	14.6	16.6	1 952.9	1 137.3	815.6	7.7	5.4	1 722.7	2 292.3	−569.6	6.8	11.0	127.7	128.0	−0.3	0.5	0.6
0	−12.7	30.6	23.2	6.5	5.9	0.6	2.9	1.7	61.8	75.1	−13.3	27.7	21.5	0.0	0.0	0.0	0.0	0.0
.7	−27.5	4.6	27.7	0.0	0.4	−0.4	0.0	0.1	47.2	74.3	−27.1	4.6	27.6	0.0	0.0	0.0	0.0	0.0
.5	25.5	43.0	22.0	21.3	3.5	17.8	13.5	1.8	46.7	39.0	7.7	29.5	20.2	0.0	0.0	0.0	0.0	0.0
0	−14.0	20.0	16.1	0.0	0.0	0.0	0.0	0.0	1.0	15.0	−14.0	20.0	16.1	0.0	0.0	0.0	0.0	0.0
.9	−528.0	15.4	18.3	407.1	173.9	233.2	8.8	2.6	302.8	1 064.0	−761.2	6.6	15.7	0.0	0.0	0.0	0.0	0.0
.0	1 070.0	12.0	10.8	1 207.0	500.0	707.0	6.6	4.8	966.0	576.0	390.0	5.3	5.6	106.0	116.0	−10.0	0.6	1.1
.0	−1.0	50.0	23.1	0.0	0.0	0.0	0.0	0.0	2.0	3.0	−1.0	50.0	23.1	0.0	0.0	0.0	0.0	0.0
.0	−39.0	83.8	64.2	0.0	0.0	0.0	0.0	0.0	31.0	70.0	−39.0	83.0	64.2	0.0	0.0	0.0	0.0	0.0
.4	−141.6	54.5	32.7	307.0	436.3	−129.3	29.8	20.3	237.7	256.2	−18.5	23.0	11.9	21.7	12.0	9.7	2.1	0.6
.0	−106.5	32.5	21.0	4.0	17.3	−13.3	4.3	2.6	26.5	119.7	−93.2	28.2	18.4	0.0	0 0	0.0	0.0	0.0
.4	−108.7	2.9	15.3	2.3	16.1	−13.8	0.3	1.9	20.4	115.3	−94.9	2.6	13.4	0.0	0.0	0.0	0.0	0.0
.2	−32.7	10.6	17.3	0.0	4.3	−4.3	0.0	1.6	13.5	41.9	−28.4	10.6	15.7	0.0	0.0	0.0	0.0	0.0
.0	2.0	2.4	0.0	2.0	0.0	2.0	2.4	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
.0	−68.0	1.5	15.5	0.3	11.6	−11.3	0.1	2 4	6.7	63.4	−56.7	1.4	13.1	0.0	0.0	0.0	0.0	0.0
.2	−5.0	2.9	14.1	0.0	0.2	−0.2	0.0	0.5	0.2	5.0	−4.8	2.9	13.6	0.0	0.0	0.0	0.0	0.0
.0	−4.0	0.0	11.1	0.0	0.0	0.0	0.0	0.0	0.0	4.0	−4.0	0.0	11.1	0.0	0.0	0.0	0.0	0.0
.0	−1.0	0.0	9.1	0.0	0.0	0.0	0.0	0.0	0.0	1.0	−1.0	0.0	9.1	0.0	0.0	0.0	0.0	0.0

TABLE II. Direction of de

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	World					Developed countries					
				Exports	Imports				Exports	Imports	
	Exports	Imports	Balance	Percentage		Exports	Imports	Balance	Percentage		Exports
Developing countries in western Asia and southern Europe (Group of 77)	**61 238.6**	**34 580.4**	**26 658.2**	**100.0**	**100.0**	**36 839.3**	**20 923.7**	**15 915.6**	**60.2**	**60.5**	**14 042.**
Developing countries in west Asia (ECWA)	51 544.7	20 861.1	30 683.6	100.0	100.0	33 621.6	13 703.4	19 918.2	65.2	65.7	12 071.
Bahrain	1 147.1	1 158.2	−11.1	100.0	100.0	624.4	423.0	201.4	54.4	36.5	399.
Democratic Yemen	334.0	180.0	154.0	100.0	100.0	280.0	85.0	195.0	83.8	47.2	47.
Iraq[a]	120.1	4 204.6	−4 084.5	100.0	100.0	24.8	3 089.6	−3 064.8	20.6	73.5	76.
Jordan[a]	125.6	730.8	−605.2	100.0	100.0	12.3	425.5	−413.2	9.8	58.2	89.
Kuwait	9 186.0	2 388.2	6 797.8	100.0	100.0	5 608.7	1 778.0	3 830.7	61.1	74.4	2 723.
Lebanon	1 162.0	2 261.0	−1 099.0	100.0	100.0	123.0	1 542.0	−1 419.0	10.6	68.2	906.
Oman	1 445.0	669.0	776.0	100.0	100.0	1 203.0	417.0	786.0	83.3	62.3	242.
Qatar	1 454.0	410.0	1 044.0	100.0	100.0	1 018.0	313.0	705.0	70.0	76.3	137.
Saudi Arabia	29 668.9	4 141.2	25 527.2	100.0	100.0	18 779.8	2 605.1	16 174.7	63.3	62.9	6 738.
Syrian Arab Republic[a]	930.0	1 669.1	−739.1	100.0	100.0	452.7	967.9	−515.2	48.7	58.0	275.
United Arab Emirates	5 961.0	2 755.0	3 206.0	100.0	100.0	5 492.0	1 913.0	3 579.0	92.1	69.4	435.
Yemen	11.0	294.0	−283.0	100.0	100.0	2.9	144.3	−141.4	26.4	49.1	2.
Developing countries in southern Europe (Group of 77)	9 693.9	13 719.3	−4 025.4	100.0	100.0	3 217.7	7 220.3	−4 002.6	33.2	52.6	1 971.
Cyprus	151.2	305.5	−154.3	100.0	100.0	73.3	181.6	−108.3	48.5	59.4	50.
Malta	131.5	374.9	−243.4	100.0	100.0	108.0	322.1	−214.1	82.1	85.9	20.
Romania	5 339.0	5 340.0	−1.0	100.0	100.0	1 653.0	2 163.0	−510.0	31.0	40.5	1 089.
Yugoslavia	4 072.2	7 698.9	−3 626.7	100.0	100.0	1 383.4	4 553.6	−3 170.2	34.0	59.1	811.

Source: UNCTAD secretariat data and estimates; complementary data from IMF, Direction of trade, annual 1971-1977.

[a] Arab Common Market (ACM): Egypt, Iraq, Jordan, Syrian Arab Republic. Interregional trade includes intra-trade of ACM.

[b] "Economic groupings" includes RCD (Iran, Pakistan, Turkey) trade.

...es' trade by main regions, 1975 (*continued*)

...rs)

...eveloping countries				Interregional					Regional, excluding economic groupings					Economic groupings				
		Exports	Imports				Exports	Imports				Exports	Imports				Exports	Imports
...ts	Balance	Percentage		Exports	Imports	Balance	Percentage		Exports	Imports	Balance	Percentage		Exports	Imports	Balance	Percentage	
.4	6 849.9	22.9	20.8	10 830.6	3 464.2	7 366.4	17.7	10.0	3 148.1	3 605.5	−457.4	5.1	10.4	85.6	158.8	−73.2	0.1	0.5
.8	6 951.5	23.4	24.5	9 537.8	2 163.6	7 374.8	18.5	10.4	2 469.9	2 833.5	−363.6	4.8	13.6	85.6	158.8	−73.2	0.2	0.8
.5	−280.2	34.8	58.7	222.7	64.0	158.7	19.4	5.5	176.6	615.5	−438.9	15.4	53.2	0.0	0.0	0.0	0.0	0.0
.0	−37.0	14.1	46.7	22.0	40.0	−18.0	6.6	22.2	25.0	44.0	−19.0	7.5	24.5	0.0	0.0	0.0	0.0	0.0
.2	−592.7	63.7	15.9	48.6	522.2	−473.6	40.5	12.4	19.2	116.0	−96.8	16.0	2.8	16.8	41.0	−24.2	14.0	1.0
.9	−138.8	70.9	31.2	27.7	59.6	−31.9	22.1	8.2	42.6	145.7	−103.1	33.9	19.9	22.1	42.1	−20.1	17.6	5.8
.0	2 368.3	29.7	14.9	2 274.8	246.5	2 028.3	24.8	10.3	448.5	108.5	340.0	4.9	4.6	0.0	0.0	0.0	0.0	0.0
.0	506.0	78.0	17.7	237.0	159.0	78.0	20.4	7.0	669.0	241.0	428.0	57.6	10.7	0.0	0.0	0.0	0.0	0.0
.0	38.0	16.7	30.5	239.0	64.0	175.0	16.5	9.6	3.0	140.0	−137.0	0.2	20.9	0.0	0.0	0.0	0.0	0.0
.0	56.0	9.4	19.8	125.0	27.0	98.0	8.6	6.6	12.0	54.0	−42.0	0.8	13.2	0.0	0.0	0.0	0.0	0.0
.5	5 403.3	22.7	32.2	5 930.5	360.9	5 569.6	20.0	8.7	808.3	974.6	−166.3	2.7	23.5	0.0	0.0	0.0	0.0	0.0
.7	−142.4	29.6	25.0	123.3	180.9	−57.6	13.3	10.8	115.9	167.7	−51.8	12.5	10.0	46.7	75.7	−29.0	5.0	4.5
.0	−125.0	7.3	20.3	287.0	372.0	−85.0	4.8	13.5	148.0	188.0	−40.0	2.5	6.8	0.0	0.0	0.0	0.0	0.0
.0	−104.0	18.2	36.1	0.2	67.5	−67.3	1.8	23.0	1.8	38.5	−36.7	16.4	13.1	0.0	0.0	0.0	0.0	0.0
.6	−101.6	20.3	15.1	1 292.8	1 300.6	−7.8	13.3	9.5	678.2	772.0	−93.8	7.0	5.6	0.0	0.0	0.0	0.0	0.0
.6	7.4	33.1	13.9	17.1	12.2	4.9	11.3	4.0	32.9	30.4	2.5	21.8	9.9	0.0	0.0	0.0	0.0	0.0
.1	−4.3	15.8	6.7	13.9	19.0	−5.1	10.6	5.1	6.9	6.1	0.8	5.2	1.6	0.0	0.0	0.0	0.0	0.0
.0	316.0	20.4	14.5	717.0	550.0	167.0	13.4	10.3	372.0	223.0	149.0	7.0	4.2	0.0	0.0	0.0	0.0	0.0
.9	−420.7	19.9	16.0	544.8	719.4	−174.6	13.4	9.3	266.4	512.5	−246.1	6.5	6.7	0.0	0.0	0.0	0.0	0.0

AGENDA ITEM 19*

DOCUMENT TD/245**

Measures to enable UNCTAD to carry out its role more effectively

Report by the UNCTAD secretariat

[*Original: English*]
[*20 April 1979*]

CONTENTS

Introduction

1. Over the past few years there has been a marked change in the way in which issues in the area of international economic co-operation, and particularly economic relations between developed and developing countries, are treated by the international community. Whereas previously these issues were mainly the subject of general debate and broad resolutions, they have now become the subject of concrete negotiations, including in certain cases the negotiation of legally binding instruments. This shift in priorities by the international community was, indeed, essential if significant progress is to be achieved on the major themes of the new international economic order.

2. The decisions taken at the fourth session of the United Nations Conference on Trade and Development to launch a wide-ranging process of negotiation on a number of key issues reflected the new priority given by the international community to negotiation on specific issues of trade and development policy. UNCTAD has now had three years of intensive experience of the negotiating process, a period which has called for a new style of work and for greater flexibility in administration and management. But this experience has also clearly revealed that UNCTAD as an organization needs to be adequately adapted and equipped to carry out its enhanced functions more effectively. Until this is done, the restructuring of the United Nations system in the economic and social field cannot be said to be complete.

3. The present report sets out the nature of the institutional constraints which continue to affect adversely the capacity of UNCTAD to carry out its functions effectively. The Conference at its fifth session will need to consider these constraints in the light of the experience of UNCTAD as a negotiating forum over the past three years, and to make appropriate decisions and recommendations.

I. *Measures to strengthen UNCTAD and improve its effectiveness*

A. Recognition of the enhanced role of UNCTAD

4. From its inception, the mandate which UNCTAD received from the General Assembly[1] conferred on it a unique role within the United Nations system in regard to a wide range of international economic issues central to the

* For the agenda, see vol. I, part three, para. 6.

** Incorporating document TD/245/Corr.1.

[1] General Assembly resolution 1995 (XIX) of 30 December 1964.

problems of development. While its main substantive responsibility has been in the field of trade and development, including shipping, insurance and transfer of technology, its mandate has encompassed also the interrelations between trade, money, finance and development; it has become the lead institution for formulating international policies and measures to deal with the special problems of the least developed, land-locked and island developing countries; it has also assumed the principal role at the global level in promoting economic co-operation among developing countries. Over the years, with the rapid expansion of its activities and functions, its concern with trade and development issues has become increasingly comprehensive in character.

5. Over the first decade of its existence, UNCTAD was at the centre of the international debate on development. It was the forum in which the problems of the developing countries commanded the attention of the international community, and in which new ideas and new approaches to trade and development policies were formulated and subjected to intensive discussion. This deliberative function of UNCTAD had—and continues to have—a powerful influence on the trend of policy, not only in UNCTAD itself but also in other international forums concerned with economic development. Indeed, many of the ideas and policy approaches first elaborated in UNCTAD have later found expression in resolutions of the General Assembly.

6. With the General Assembly's Declaration and Programme of Action on the Establishment of a New International Economic Order,[2] UNCTAD entered a new and more operational phase of activity. The need for structural change in the world economic system, which had been raised in UNCTAD in the early years of its existence, now acquired new meaning and clarity in an internationally accepted framework of principles and objectives. In this context, UNCTAD has inevitably been called upon to play a major role in intergovernmental deliberations, consultations and negotiations on the institutional and structural changes required in international economic relations.

7. Since the sixth and seventh special sessions of the General Assembly, the rapid expansion of the international negotiating process has had far-reaching institutional implications for UNCTAD. The fourth session of the Conference resulted in international commitments for a major programme of negotiations on a number of issues which had been given priority in the General Assembly resolutions adopted by the General Assembly at its sixth and seventh special sessions. These initiatives have given increasing importance to the role of UNCTAD as a forum for international economic negotiations. In recent years, its activities have included negotiations on the Integrated Programme for Commodities, including the establishment of the common fund and the conclusion of a number of international commodity agreements, an international code of conduct on the transfer of technology, the principles and rules governing restrictive business practices, a convention on international multimodal transport, and the reorganization of the external debt of developing countries. These activities have transformed the character of UNCTAD, resulting in a vast escalation in the number of official meetings and in the demands made both on its member Governments and on its secretariat.

8. To respond adequately and effectively to the new priorities established by the international community, UNCTAD needs to adapt and equip itself to meet the requirements of its enhanced role. Though its original mandate covered both the deliberative and negotiating functions, the emphasis until the fourth session of the Conference was largely on general debate on broad issues of policy and on resolutions of an essentially recommendatory character. This emphasis was reflected in the organizational structure of UNCTAD and in the nature of the intergovernmental meetings themselves.

9. In the new phase of the activities of UNCTAD since the fourth session of the Conference, the extensive range of the negotiations on specific issues that have been undertaken within it have resulted in its role evolving to the point where UNCTAD has become *de facto* the principal instrument of the General Assembly for negotiations in the field of trade and international economic co-operation for development, particularly in the context of negotiations on the establishment of a new international economic order. It has now become vitally important for Governments to recognize this enhanced role of UNCTAD, so that it can be adapted and adequately equipped to fulfil this role effectively. Without such recognition, UNCTAD is unlikely to command special attention to its requirements as a major negotiating forum.

B. Need for flexibility in UNCTAD operations

10. The increased emphasis in UNCTAD on negotiations has called for a new style of work and new operational methods. These need to be significantly different from those required for servicing committees having mainly deliberative functions and requiring the provision of background documentation. An effective process of negotiation requires much more than this. In particular, it requires close consultation between the secretariat and Governments, not only during negotiating conferences but also in the preparations for them. Intensive work of a substantive character must be carried out on the issues under negotiation to identify possible areas of agreement and negotiable packages. More frequent contacts by UNCTAD in capitals of national Governments will be necessary, so that the concerns of individual countries can be taken fully into account in the formulation of proposals to assist the negotiation process.

11. Such new operational methods would require, for example, the ability to convene at short notice high-level advisory and expert groups to assist the Secretary-General of UNCTAD in the analysis and evaluation of specific issues and in the formulation of policy proposals, to engage eminent persons for special assignments and to arrange for more frequent travel of senior UNCTAD staff involved in negotiations for contacts with ministers and senior officials in capitals. In short, in the light of the experience gained in the negotiating process since the fourth session of the Conference, it is evident that what is required is for UNCTAD to enjoy greater freedom than is now possible to take initiatives in response to changing situations and to be able to effect rapid reallocation of its resources as the occasion requires.

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

12. Such managerial flexibility is not, however, possible within the existing United Nations administrative system of very detailed central control of the total appropriation of UNCTAD and the application of standard staffing and recruitment procedures and uniform administrative practices, which in many cases are not geared to the particular needs of UNCTAD. Indeed, UNCTAD has less administrative and financial autonomy than is enjoyed by many of the major organizational units of the United Nations located outside of Geneva and New York. A major disparity thus exists between the *de facto* substantive responsibilities of UNCTAD, as described above, which correspond to those of a major intergovernmental institution, and its *de jure* status as one among many separate departments of the United Nations Organization. This disparity hampers and constrains the major negotiating processes which have given priority by the international community.

13. It would not, however, be appropriate to seek a solution to this problem by transforming UNCTAD into an autonomous specialized agency. On the contrary, UNCTAD needs to serve the General Assembly more directly and more effectively than ever before. If UNCTAD is to gain the operational flexibility which it needs, while at the same time retaining its integral link with the General Assembly, some imaginative and innovative changes will be needed in the present system of central control, directed towards the decentralization of management responsibility, financial control and servicing functions. In the light of the above considerations, the managerial changes that are required should aim primarily to provide UNCTAD with:

(*a*) Greater flexibility, and a degree of autonomy, in the use of its financial resources (both regular and extra-budgetary), particularly as regards that portion of the budget used in connexion with intergovernmental negotiations;

(*b*) Greater flexibility in the formulation and presentation of its budget;

(*c*) Greater freedom and authority in staffing the organization, particularly in decision-making concerning the recruitment of staff and in related matters of administration;

(*d*) Authority to organize and manage its own services, particularly in those areas of programme support in which the existing common services have difficulty in responding adequately to its changing requirements.

C. Provision of adequate resources

14. Since the fourth session of the Conference, held at Nairobi in 1976, the rapid expansion of activities in UNCTAD has far outpaced the increase in the resources available to it. Not only has the workload of UNCTAD grown vastly in sheer volume and intensity over the past three years, but the demands on its capacities have also substantially changed in quality, calling for different operational methods responsive to the special needs of a major international negotiating forum. The expansion in activities is evident in all aspects of its work. Its main deliberative organs have grown in number. Decisions to establish additional intergovernmental committees—the *Ad Hoc* Committee for the Integrated Programme for Commodities and the Committee on Economic Co-operation among Developing Countries—were taken at the fourth session of the Conference. Moreover, since the fourth session the number and frequency of intergovernmental meetings in UNCTAD have grown immensely, while the issues under discussion have become more complex.

15. This expansion in activities has been largely focused on the Integrated Programme for Commodities which is, in effect, an unprecedentedly ambitious effort to restructure a wide range of world commodity markets within a restricted time period, involving a very large number of additional meetings of intergovernmental bodies. The negotiations on the draft International Code of Conduct on the Transfer of Technology have also placed a severe burden on secretariat resources, which have also had to support the ongoing negotiations on the rules and principles for the regulation of restrictive business practices, the negotiations on relief for the external debt burden of developing countries, and the preparations for the negotiations on international multimodal transport.

16. These various negotiations need to draw on a wide variety of skills and expertise. The objectives include the creation of new institutions, legally binding instruments, and internationally accepted principles and guidelines to govern international action in specific fields. At the same time, the activities of UNCTAD in dealing with the special problems of the least developed, land-locked and island developing countries, its efforts to expand and intensify economic linkages between countries with different social and economic systems, in particular between developing countries and all the countries members of the Council for Mutual Economic Assistance, and its programme to promote economic co-operation among developing countries, have moved more decisively in an action-oriented direction requiring more intensive intergovernmental consultations and servicing by the secretariat.

17. Along with the rapid expansion of its deliberative and negotiating activities, UNCTAD has inevitably had to meet a growing demand for technical assistance in various fields related to these activities. This is reflected in the increase of UNCTAD technical co-operation programmes, the support of which has made increasing calls on its limited resources.

18. In addition to the expansion in the secretariat's activities relating to intergovernmental deliberations and negotiations in UNCTAD, and to expanded technical co-operation programmes, the period since the fourth session of the Conference has witnessed the evolution of greater involvement of UNCTAD in the work of other bodies of the United Nations and, in particular, of the General Assembly itself (including the Preparatory Committee for the New International Development Strategy).[3] Parallel with this evolution at the intergovernmental level, there has been a notable increase in interagency consultation and collaboration at the secretariat level on a range of key issues of concern to UNCTAD. These developments within the United Nations have placed an additional, and at times heavy, burden on the senior staff of the UNCTAD secretariat.

19. Because of the heterogeneity of UNCTAD activities and the changing nature of their requirements as regards the

[3] Set up by General Assembly resolution 33/193 of 29 January 1979.

quality of the secretariat's input, it is not possible to construct any precise measure of the effective workload on the secretariat at any one time. However, some very approximate indicators of the order of magnitude of changes in the workload over the past decade may be derived from data relating to the number of weeks of official meetings and the number of sessions of UNCTAD intergovernmental bodies. As can be seen from table 1, the workload—as measured by these two indicators—rose only slightly in the period 1971-1976, as compared with the position at the end of the 1960s.[4] The sharp jump in both indicators came in 1977, when the decisions taken at the fourth session of the Conference were being translated into operational terms. For the three years 1977-1979, the average workload on the secretariat—on the basis of these indicators—has more than doubled compared with the average for the preceding decade.

20. That the general trend towards an increasing workload is still continuing can be seen from the increase in the number of weeks of official meetings from 101.5 in 1978 (itself an all-time record) to an estimated 115 in 1979 on the basis of the current calendar of meetings as approved at the tenth special session of the Board. Moreover, the 1979 meetings schedule includes provision for 13 major negotiating conferences (in addition to the fifth session of the United Nations Conference on Trade and Development), as compared with six such conferences in 1978 and four in 1977.[5]

21. The difficulties of constructing a precise index of the real resources available to the secretariat to carry out its tasks are also severe, particularly in view of the fact, already mentioned, that the transformation in the character of UNCTAD, and its focus on the negotiating process, has called for new skills and expertise and a new style of work. One indicator—admittedly crude—of the change in secretariat resources is simply the change in the total number of staff. The total staff complement is today only 16 per cent above what was originally approved for the 1976-1977 budget, an increase that falls far short of the expansion in the workload of the organization.

22. A similar discrepancy between the increase in workload and that in available resources emerges if an index of the total UNCTAD budget is adjusted for price changes, thus giving a broad indication of quantum change in available resources over the past decade (last line of table 1). Compared with the period before the fourth session of the Conference, the increase in the regular budget of UNCTAD has been broadly in line with the increase in the total United Nations regular budget allocated to economic, social and humanitarian programmes. For the biennium 1978-1979, The UNCTAD share of the total regular budget for these programmes amounts to 12 per cent; at the beginning of the 1970s, the corresponding share was of the order of 10 per cent. In this connexion, it is of relevance to compare the professional staff complement of UNCTAD with that of other major organizational units of the United Nations in the economic and social field (see table 2).

23. The question thus arises whether the policy objectives set for UNCTAD by member Governments can reasonably be expected to be attained by the dimension of the resources currently made available to UNCTAD. In this regard, it should be borne in mind that the provision of adequate resources which would enable the negotiating process to be effectively serviced and supported should result in fewer and more productive meetings and hence in less over-all cost to member Governments.

D. Rationalizing and restructuring the permanent machinery of UNCTAD

24. Pursuant to Conference resolution 90 (IV), the Trade and Development Board has had under consideration since its sixteenth session the question of rationalizing the structure of UNCTAD committees and their subsidiary bodies and of introducing greater flexibility into their operations. As a result of Board resolution 143 (XVI), the Secretary-General of UNCTAD is having regular quarterly consultations with representatives of regional groups on the provisional agenda and dates of UNCTAD meetings scheduled six months ahead. These consultations have proved useful in facilitating necessary adjustments in the calendar of meetings, as well as in the provisional agenda.

25. The Board also considered a number of alternative approaches to the rationalization of the Committee structure which had been suggested by the Secretary-General of UNCTAD,[6] relating to the possible consolidation of existing committees and other measures to strengthen their deliberative and review functions without impairing their existing mandates. At its eighteenth session, the Board decided that, "in view of the nature and scope of the issue, it would defer consideration in depth of the issue of rationalization of the structure of the permanent machinery of UNCTAD until the fifth session of the Conference..."[7]. The Conference at its fifth session will need to consider how best to deal with this issue, taking into account the proposal already made for the establishment of an *ad hoc* Committee of the Board for this purpose,[8] a proposal which has been referred to the Conference by the tenth special session of the Board.[9]

II. *Issues before the Conference*

26. At its fourth session, the Conference endorsed the need to strengthen UNCTAD in very strong terms.[10] This endorsement was renewed in the General Assembly resolution on the restructuring of the United Nations

[4] The greater percentage rise, from 1968-1970 to 1971-1976, in the number of sessions (12 per cent) than in the number of weeks of meetings (2 per cent) reflects a reduction in the average length of meetings.

[5] The increasing workload has had serious adverse effects on the provision of documentation for meetings. See the report of the Board on its tenth special session (*Official Records of the General Assembly, Thirty-fourth Session, Supplement No. 15* (A/34/15), para. 101).

[6] See *Official Records of the Trade and Development Board, Sixteenth Session (first part), Annexes*, agenda item 2, document TD/B/622, sect. II.F.

[7] *Official Records of the General Assembly, Thirty-third Session, Supplement No. 15* (A/33/15), vol. II, para. 602.

[8] *Ibid.*, annex IV, "Draft resolution submitted by Colombia on behalf of the States members of the Group of 77" (TD/B/L.512).

[9] *Ibid., Thirty-fourth Session, Supplement No. 15* (A/34/15), para. 63.

[10] Conference resolution 90 (IV).

TABLE 1

Indicators of workload in relation to secretariat resources, 1968-1979

	Average 1968-1970	*Average 1971-1976*	*Average 1977-1979*[a]	*1977*	*1978*	*1979*
Indicators of workload						
Number of weeks of official meetings[b]	43	44	101.5	88	101.5	115[c]
Index	*100*	*102*	*236*	*205*	*236*	*267*
Number of sessions of UNCTAD bodies[b]	25	28	63	62	72	55[c]
Index	*100*	*112*	*252*	*248*	*288*	*220*
Indicators of secretariat resources						
Total number of staff[d]	296	325	422	416	425	425
Index	*100*	*110*	*143*	*141*	*144*	*144*
Total cost of UNCTAD secretariat (in constant prices)[e]						
Index	*100*	*106*	*137*	*134*	*142*[f]	*136*[f]

[a] Including estimates for 1979.

[b] Including sessions of the Conference.

[c] Estimated on basis of calendar of meetings. The decline in the number of sessions between 1978 and 1979 reflects the sharp increase in 1979 of relatively lengthy negotiating conferences.

[d] Both Professional and General Service staff, including *ad hoc* posts for the Integrated Programme for Commodities from 1977 onwards.

[e] Salaries, common staff costs, travel, printing and general operating expenses, but excluding cost of supporting services provided by the United Nations Office in Geneva. The index relates to costs in terms of Swiss francs.

[f] Based on appropriations within the 1978-1979 biennium. The decline of some 4 per cent between 1978 and 1979 reflects mainly the change in the exchange rate between the United States dollar and the Swiss franc.

TABLE 2

Established professional post proposals and budget estimates for the 1978-1979 biennium relating to economic and social activities of the United Nations

	Established posts[a]		*Total budget estimates*[b] *for biennium*	
	Number	*Percentage of total*	*Millions of dollars*	*Percentage of total*
Department of Economic and Social Affairs[c]	582	25.2	110.7	26.5
UNIDO	420[d]	18.2	76.0	18.2
UNCTAD	228	9.9	59.6[e]	14.3
Regional commissions:				
ECA	224[d]	9.7	27.1	6.5
ECE	131	5.7	42.2[e]	10.1
ECLA	218[d]	9.4	29.1	7.0
ECWA	130[d]	5.6	15.3	3.7
ESCAP	187[d]	8.1	22.2	5.3
Transnational corporations	54	2.3	9.9	2.4
UNEP	136[d]	5.9	25.5	6.1
TOTAL	2 310	100.0	417.6	100.0

Source: Proposed programme budget for the biennium 1978-1979 (*Official Records of the Thirty-second Session, Supplement No. 6* (A/32/6)).

[a] Professional and higher grades, including posts financed from extrabudgetary funds.

[b] Including direct costs, apportioned costs for supporting services (translation, interpretation, etc.), and cost of posts financed from extrabudgetary funds.

[c] Before allowance for the reorganization of the Department of Economic and Social Affairs.

[d] Including supporting staff (translation, interpretation, etc.).

[e] Because of the relatively low purchasing power of the dollar in Geneva, as well as the relatively high amounts of post adjustment included, these figures represent less than proportionate amounts of real resources compared with those represented by the figures for the other departments listed.

system in the economic and social field.[11] Yet there has been essentially no change in UNCTAD consequent to these decisions. Though the restructuring process introduced reforms outside UNCTAD, it has left UNCTAD itself virtually unchanged. Given the importance of the substantive issues being dealt with in UNCTAD, and the need to pursue these issues through a process of negotiation, the strengthening of UNCTAD assumes a special importance as a necessary part of the restructuring of the United Nations system in the economic and social field.

27. At its fifth session, the Conference should consider the institutional issues outlined above, and take decisions and make appropriate recommendations to the General Assembly. The primary objectives of action, as they emerge from the earlier discussion, would be:

(*a*) To recognize the evolving role of UNCTAD as the principal instrument of the General Assembly for intergovernmental negotiations on international economic issues, thereby providing the political endorsement required for the strengthening of UNCTAD so as to improve its effectiveness;

(*b*) To enable UNCTAD to respond to the new demands made on it with greater flexibility in its method of operation and thereby improve its capacity and effectiveness as an international negotiating forum by providing it with an appropriate degree of autonomy and flexibility in its financial and administrative management;

(*c*) To match the expanding workload of UNCTAD and the increasing complexity and changing composition of its responsibilities with an adequate level of resources.

[11] General Assembly resolution 32/197 of 20 December 1977.

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