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DEVELOPMENT AND INTERNATIONAL ECONOMIC CO-OPERATION

Letter dated 5 September 1975 from the Permanent
Representative of Barbados to the United Nations
addressed to the Secretary-General

I have the honour to refer to a Report of the Commonwealth Group of Experts treating with matters on the Agenda of the Seventh Special Session of the General Assembly, which has been transmitted to your office.

The Report is called "Towards a New International Economic Order", and is currently under review by the Commonwealth Finance Ministers in Guyana.

I am instructed to request your Excellency, to have this document circulated in all the official languages as a document of the Seventh Special Session.

(Signed) W. E. WALDRON-RAMSEY

Foreword by the Commonwealth Secretary-General

Commonwealth Ministers meeting in Georgetown, Guyana, August 25 – 28, considered the Interim Report “Towards a New International Economic Order” prepared by the Group of Experts appointed by Commonwealth Heads of Government at their Meeting in Kingston, Jamaica in May 1975. The Group was congratulated on producing a unanimous and valuable Interim Report and was requested to complete its work, taking into account the deliberations in Georgetown and in fulfilment of the mandate from Heads of Government for a comprehensive and inter-related programme of practical measures directed at closing the gap between the rich and poor countries.

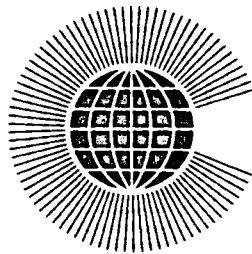
The proposals contained in the Interim Report, many of which are amenable to immediate implementation, commanded a large measure of agreement. Without necessarily committing their Governments to every aspect of the Interim Report, the Ministers gave it general endorsement and agreed that the early implementation of these proposals would constitute a first step towards achieving the progressive removal of the wide disparities of wealth now existing between different sections of mankind.

Ministers commended the report as a valuable contribution to constructive international dialogue and consensus-building in the critical area of international economic relations. I was accordingly requested to publish the Interim Report and to make it available to the international community, particularly in the context of the Seventh Special Session of the United Nations General Assembly.

Shridath S. Ramphal

August 28 1975

**TOWARDS
A NEW
INTERNATIONAL
ECONOMIC
ORDER**



**Commonwealth Secretariat
Marlborough House, London**

Government Conference Centre,
Ottawa, Canada.

23 July 1975

H.E. Mr. S.S. Ramphal,
Commonwealth Secretary-General,
Marlborough House,
Pall Mall,
London S.W.1.

Dear Secretary-General:

We have the honour to transmit herewith our Interim Report on a comprehensive and inter-related programme of practical measures directed at closing the gap between the rich and the poor countries, as requested on 6 May 1975 by the Commonwealth Heads of Government meeting at Kingston.

As instructed, we have in this Interim Report directed our attention to those measures which in our view are amenable to early and effective implementation. However, in the limited time available to us we were not able to consider in as much depth as we should have wished certain problems which are both important and urgent. Nonetheless we hope that Commonwealth ministers will find in our Report analyses, concepts, arguments and conclusions which will help them when they come to consider collectively the right path to follow.

The members of the Group in signing the Report do so in their personal capacities, and not as representatives of their governments and countries. They have subscribed to the broad consensus it represents. It should surprise no-one that, in order to reach a consensus on such a broad range of crucial and complex issues, differences of opinion had to be accommodated.

We are grateful for having been appointed to serve on this Group and for the guidance you gave us when we began the second stage of our work. For all of us the preparation of this Interim Report has been both an exciting and an educative task.

Please accept, Secretary-General, the expression of our highest consideration.

A. D. Browne.

Alik M. S. G.

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A. S. S.

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SUMMARY OF REPORT

1. There are several dimensions to the gap in the standard of living between rich and poor nations, and radical and fundamental changes in international economic relationships and patterns of production and consumption in developed countries would be needed to close it. This process can be achieved in the very long run. The Group has confined itself to indicating a programme of measures which would at least arrest declines in standards of living in the poorest developing countries and accelerate the rates of growth in the rest of the developing world.
2. The overriding need is to secure for all people acceptable standards of nutrition, clothing, shelter, public health and medical care, and education. This is the minimum tolerable standard of existence.
3. The Group has drawn up basic guidelines which should govern trade in commodities. We regard the integrated commodities programme of the UNCTAD as a major sustained and comprehensive attack on the commodity problem. We urge the adoption of a programme along these lines and that the necessary consultations be concluded before UNCTAD IV in 1976.
4. We believe that indexation is an important element in commodity agreements; that positive characteristics of producer associations should be acknowledged and encouraged; and that, while technological progress in the field of synthetics is not to be halted, it would be appropriate to consider measures which would protect the interests of the primary-producing countries and improve their competitive strength vis-a-vis synthetics. We draw attention to the need for maintaining a high level of investment in non-renewable resources. In examining the form that commodity arrangements might take we consider that at an appropriate stage a general agreement on commodities could be of value.
5. We encourage developing countries to intensify their participation in the GATT multilateral trade negotiations, and recommend that special consideration should be given to aspects affecting the ability of the developing countries to realise the full benefits of trade liberalization. We recommend the examination and modification of rules of origin. We urge that the developed countries should not wait until the MTNs are concluded to introduce concessions beneficial to developing countries.
6. We call for improvement of the generalized system of preferences (GSP) and urge OECD countries to widen the coverage of their schemes and deepen their tariff cuts. We urge developed countries to undertake adjustment measures linked specifically to the promotion of imports from developing countries.
7. We encourage increasing cooperation among developing countries and emphasise the integrated development of key sectors. Developing countries should make greater efforts to identify joint projects for development within the framework of cooperation schemes. Cooperation at sub-regional and inter-regional levels, e.g. in trade, industry

and transport, should be encouraged. Financial and technical support from the developed countries in this area should be increased.

8. We endorse and urge the speedy implementation of the recommendations and conclusions of the World Food Conference and the Commonwealth Ministers' meeting in March 1975. Food production and rural development should be given the highest priority. This is especially important in vulnerable areas, e.g. the Sahel and Bangladesh. Donor countries should help developing countries to secure their needs of fertilizers and to develop their own production. Fishing industries should be given greater attention. More donor countries should pledge support for the International Fund for Agricultural Development.

9. The World Bank and other lenders should be urged to participate in programmes for rural modernisation in an innovative and pragmatic way, including a considerable extension of the financing of local costs of rural development programmes. We look for the speedy achievement of the food aid target of 10 million tons annually and urge that grain stocks be established in developing countries susceptible to hardship in times of shortage.

10. We consider the accelerated development of manufacturing activities a central part of a new economic order. New patterns of international relationships in the field of industrial development are called for. The special needs of the poorer countries who will benefit less from industrial cooperation should be acknowledged. While we were unable to examine in depth the role of transnational corporations in developing countries, the international community should intensify its efforts to find solutions in this field which would avoid the mistakes of the past. We suggest that guidelines might be drawn up for bilateral industrial cooperation between developed and developing countries. This could lead to specific bilateral arrangements.

11. If the transfer of technology is to be effective, it should be not only a continuing process but more concentrated on the needs of the developing countries and integrated into their internal structures so as to become self-generating. We most strongly recommend the establishment of indigenous centres of research and development. We see a strengthened role for UNIDO in the field of industrial cooperation.

12. We view with concern the inadequacy of the transfer of resources from the developed to the developing countries and the limited results which this has yielded so far. We are discouraged by the stagnation in the flow of official development assistance in recent years. We think that a marked increase in the transfer of resources will be needed in order merely to sustain a minimum momentum of development in much of the world and even to maintain conditions of life in many of the poorest countries. We set out particular areas for which a major increase in the transfer of resources is needed.

13. We urge that all developed countries regardless of their economic and social system, and particularly those with per capita GNP of over \$2,000, should without any further delay implement the United Nations target of 0.7 per cent. We believe that the pressing needs of developing countries require an ODA effort equivalent of at least 1 per cent of GNP of the developed countries by 1980. We endorse the terms target adopted by the DAC, i.e. the average grant element of at least 84 per cent. We hope that the terms of assistance, particularly for the poorer countries, would be such that the period of repayment would be at least 40 to 50 years, with a grace period of at least 10 years and a maximum rate of interest not exceeding 1 per cent, and that the terms for the least developed countries should be even more concessionary. We recommend that the balance for the transfer of resources should be shifted increasingly in favour of the poorest countries.

14. We consider that developing countries should have priority call on Special Drawing Rights (SDRs) through some form of "Link" mechanism. We invite the World Bank and other organizations to reconsider the feasibility of drawing up guidelines for the rescheduling of debt for countries suffering from serious and intractable debt servicing problems. These should establish a presumption in favour of automatic rescheduling and relief from external debt of particular developing countries and also should include the writing-off of certain loans, as well as the conversion of existing loans into outright grants to the most seriously affected countries. We support proposals for interest subsidy schemes for increasing the flow of resources to the developing countries on intermediate terms. We also support the use of gold holdings by the IMF for increasing the flow of resources to the poor countries.

15. We were unable to examine in depth measures to enable developing countries to participate more fully in invisible trade, but have put forward preliminary suggestions in the field of shipping.

16. Similarly in the time available we have been unable to examine the question of international institutions in depth, but recommend that Commonwealth Finance Ministers should at the next meeting of their Boards of Governors take up the question of securing changes in the voting rights and managerial structures of the IBRD and the IMF, so as to give the developing countries greater participation in the decision-making in these institutions.

INTRODUCTION

We were appointed by the Commonwealth Heads of Government to draw up "in the context of the current international dialogue, a comprehensive and inter-related programme of practical measures directed at closing the gap between the rich and the poor countries". Our detailed terms of reference are set out in Annex I of this Report.

2. In accordance with the general framework of our terms of reference, we have seen our task essentially as one of identifying a coordinated programme of measures which could provide a basis for implementation of a new international economic order. As requested by the Heads of Government, we took as one of our starting points the Declaration and the Programme of Action on the Establishment of a New International Economic Order as adopted by the United Nations General Assembly. In this context, we have worked with the central assumption that the effective implementation of a new order would require international cooperation and effort on an unprecedented scale, both in quantitative and qualitative terms.

3. Our own analysis of the development prospects and needs of the poor countries indicates the necessity for fundamental changes in the world economy, involving a progressive re-distribution of economic activity in favour of the developing countries. This will demand bold and complementary action on several fronts to accelerate and deepen the processes of agricultural and industrial development in the developing countries. It will also require a substantially different structure of international economic relations than has been in existence up to now.

4. It is clear, therefore, that it is nothing short of wishful thinking to suppose that solutions to global poverty could be found in case-by-case adjustments of an essentially marginal character. In coming to terms with the tasks with which it is confronted in this field, the international community has to demonstrate a new resolve for urgent and imaginative action.

5. We have ourselves sought to impart a sense of urgency in our own recommendations. We recognise that the complexities arising in many areas will call for continuing study of alternative solutions. Nonetheless, it is our view that action and further study should go hand in hand, so that valuable time is not lost in achieving concrete progress. In our opinion it is far less dangerous to err on the side of experimentation than to make such a virtue of perfection that it results in deleterious delay and inaction.

6. The World Food Conference is a good example. Its short-term emergency recommendations call for 10 million tons of grain to be contributed annually by the wealthy grain producers of the world for food aid. Its institutional proposals envisage a World Food Council, a Consultative Group for Food Production and Investment and an International Fund for Agricultural Development. Immediate action is needed so that the implementation of its short-term objective could itself lead to long-term institutional development drawing on the collective responsibility of the whole world.

Seen this way, a continuous process is established, with each stage defined and achieved and new objectives unfolding themselves on the horizon, on the basic premise that all and not only some have a stake in a stable future in which human life is meaningful to all.

7. In this connection we wish to draw attention to the need for the international community to adopt more appropriate norms as to what constitutes early action. Up to now there has been a tendency to regard a period of, say, two to three years spent in consultations and negotiations as reasonably prompt action. Our feeling is that the urgency of the present situation demands new deadlines for speeding up decision-making on questions of international development. This assumption underlies the time frames which are indicated throughout the Report.

8. It has been no easy task digesting the massive documentation which now exists on the subject of a new international economic order and on its component parts. We have been greatly assisted by the staff of the Commonwealth Secretariat, who worked at relatively short notice on summarising some of the material in a series of papers. We also owe a special debt of gratitude to our consultants who submitted concise analyses on key aspects of the question, and to those others who made oral presentations at our meetings. Special thanks are also due to the staff of the Secretariat who assisted with the drafting of this Report. In particular, we wish to pay tribute to Mr. Philip Hayes, the Director of the Trade and Finance Division of the Secretariat, who served us admirably as Secretary to the group. The office staff both from Canada and elsewhere, who worked assiduously on typing and reproducing many drafts, also deserve acknowledgment and thanks.

9. We must also express our gratitude to the Government of Canada for the facilities which they provided for our work here in Ottawa, and to our individual employers for releasing us for this period.

SECTION 1

THE ALLEVIATION OF POVERTY

Nature of the problem

10. The terms of reference of the Group require us to consider the gap between the rich and the poor nations and to suggest measures for closing it. There are several dimensions of the gap which exists between the rich and the poor countries, and comparisons of per capita income are at best a rather crude indicator of the differences. Yet these figures are telling enough. Of the roughly 4,000 million people of the world, 1,200 million live in countries where per capita GNP is conventionally estimated at less than \$200 a year – 2,000 million if the People's Republic of China is included in this group. At the other extreme, a minority of around 600 million live in countries with per capita GNP ranging from \$2,000 to \$5,600. Another 1,200 million people live in countries where the per capita GNP levels range between \$200 and \$2,000.^{1/}

11. The gap in terms of living standards, wealth, technology, and socio-economic infrastructure between the rich and the poor countries is extremely wide. Given a gap of such enormous proportions in income levels and in productive capacities, a comprehensive programme directed towards *closing* the gap would involve measures of unprecedented nature and scope which could only be sustained by a radical, even revolutionary, change within the developed economies and in the structure of international economic relations, as well as in the developing countries. Even if the objective of closing the gap is not formulated in terms of an equality in levels of income, it would involve wide acceptance of the concept of ceilings on growth and consumption in the rich countries and their implementation through changes in socio-economic objectives and ways of life, and radical changes in patterns of consumption and production structures within the developed countries. At the same time, it would involve the establishment of universally accepted minimum standards of living in the majority of the developing nations. Furthermore, this would involve in many cases an international redistribution of assets as well as direct transfers of income between rich and poor nations. The experience of the developed countries in narrowing the gap between the rich and the poor within their own economies illustrates the nature and magnitude of the problem under discussion.

12. It is obvious, therefore, that an objective of closing the gap between nations, even if it is attainable, could only be achieved in the very long run. The achievement of such an objective would indeed represent the fulfilment of the aspirations and the ideals of a truly international community firmly bound together by a sense of solidarity, cohesion and close interdependence. However, our terms of reference require us to suggest practical measures for early implementation. We have therefore devoted our attention to the immediate objective, i.e. minimum measures which must be adopted on an international level to alleviate the conditions of poverty – indeed crushing poverty – in which the majority of the developing world live. The Group

^{1/} Figures for 1972, at the prices and exchange rates of that year, taken from *World Bank Atlas*, 1974.

hopes that the efficient implementation of the suggested measures would at least arrest, and we would hope reverse, declines in standards of living in the poorest developing countries and the poorest sections within their economies, and accelerate the rate of growth and expansion of employment in the rest of the developing world.

13. Starvation, malnutrition, disease and generally wretched conditions of life are the daily lot or a constant risk for millions of people in the poor countries. These deprivations, coupled with illiteracy and limited access to formal education, are not only symptoms of poverty and under-development, but by stunting physical and mental development and weakening productive capacity and enterprise, they are also a cause of the perpetuation of poverty.

14. We have already pointed out that developing countries suffer from acute shortages of productive capacity and infrastructure, coupled with limited managerial skills and capacity to adapt technology to local circumstances and to devise and apply new technologies. The affluent, industrialized countries, on the other hand, have amassed a huge capital stock and extensive productive organization, which continue to grow. The problems which arise for developed countries are only temporary setbacks in the trend of ever-increasing economic possibilities. Because of limitations in productive capacity the poorer countries have no such resilience, and no such assured hope of progressively increasing capacity to tackle and overcome their difficulties. It is little wonder that leaders in the developing countries feel a mounting sense of frustration when they contrast their problems at home with the plainly visible, continuing increase in the economic power and technological capacity of the advanced, industrialised countries.

15. When the international community began systematic work on problems of global development over two and a half decades ago, it was assumed that the solution lay in a comparatively narrow range of measures of capital and technical assistance. It is clear that this approach did not measure up to the complexity of the task. Nevertheless, one should not ignore the economic growth which has occurred in developing countries since the war. Many developing countries have achieved increases over the post-war years in real GNP per capita, helped by their own savings and hard work, expanding world trade, transfers of technology, and net capital inflows. However, too many countries, particularly those in the lowest income group, have either stagnated or advanced very little, and then on too narrow a front.

16. A disturbing feature of the development process in many countries has been the failure to achieve more substantial progress with the reduction of unemployment and extreme poverty in both the rural and urban areas. Moreover, agricultural development and improvements in transport and the distribution system have not yet been sufficient to protect millions of people from the recurrent risk of starvation.

17. In the more immediate context, high prices of petroleum, food, fertilizers, capital equipment and other manufactured goods imported by developing countries, coupled with the collapse of prices and demand for most primary products as a result

of economic recession in the industrial countries, have added the threat to many of the poorest countries of totally inadequate capacity to import the goods and services needed to sustain conditions of life and the momentum of development.

Objectives of change

18. We have already observed that the magnitude and nature of poverty in the developing countries are intolerable, are not in the interests of a stable and expanding world economy, and give rise to increasingly dangerous tensions. It is now generally accepted that all nations should derive fair benefits from the earth's resources and from the products of man's ingenuity, and that the basic needs of all men should be satisfied. It is now common ground that economic activity is a means, not an end in itself, and that it must be made consistent with the other needs of mankind and with the dignity of the human being.

19. It should not be assumed that developing countries would wish to conform uniformly or closely to the economic and social patterns which now obtain in industrial societies. In spite of the pervasive nature of international culture contact, we expect that each developing country will wish to follow its own path, conditioned by its own circumstances and aspirations. It is our hope that the lessons of experience will help the developing countries to avoid some of the strains, social costs and inequities which the developed countries have encountered in the course of their development.

20. We welcome and endorse the increased emphasis at the national and international level on the need to achieve minimum decent living standards for all countries and individuals. In our view the overriding objective of global development should be to secure for all the people of the world acceptable levels of nutrition, clothing, shelter, public health and medical care, and education. Such a policy is necessary not only to bring all mankind up to tolerable minimum standards of existence, but also to lay the foundations for effective self-help and sustained improvement in the conditions of life. The magnitude of the task is illustrated by the fact that in South Asia alone half of the population is below a stringently drawn poverty line — 360 million people in absolute poverty in this one area.

A shift in the distribution of economic activity

21. It has previously been mentioned that a new and more equitable economic order must depend on progressive and radical change in the distribution of economic activity throughout the globe, so that the developing world no longer finds itself cast predominantly as a supplier of raw materials and a reservoir of cheap labour for the industrialized countries, while remaining highly dependent on the developed countries for a major part of its capital equipment, other manufactured goods and productive technology. A new economic order must be founded on arrangements providing genuine equality of opportunity between states, and bring new relationships of inter-dependence in place of the older patterns of dominance and dependence.

22. The desired *relative* shift in the distribution of economic activity should bring into play a dynamic concept of comparative advantage. In shaping the international economic policy, there is a need to judge considerations of efficiency in relation to the

desired distribution of the benefits of economic and social change. The process will call for an acceleration of structural change in the developed as in the developing countries. It will also require changes of institutional structure. These changes will be most readily achieved in the setting of a dynamic world economy, to which they will contribute. In this setting, the necessary process of structural change will bring benefits for all.

Transformation in the developing countries

23. A new economic order must be designed to encourage the development of individual and collective efforts of self-reliance by developing countries. It is increasingly recognised that true development cannot be imposed from above, but must be generated from the grass roots of these societies through popular participation and self-help. The role of the international framework must be to create the conditions and provide the support within which self-reliance can flourish.

24. Creation of a new dynamic of development in the developing countries, and the improvement as a matter of priority of the conditions of life of their most deprived people, will depend on sustained national efforts in a framework of soundly conceived policies. It depends on continuous efforts in mobilizing national resources – human as well as material – and in making efficient use of available resources, both internal and external. Economic and social transformation is a complex process, calling for prolonged national self-discipline and sensible ordering of priorities. There are no simple solutions.

25. While the pattern of development will vary from one country to another, according to a wide variety of factors which include the endowment of natural resources, geographical location and the skills and aptitudes of the people, in most countries progress will depend on an appropriate balance being achieved between developments in the agricultural, industrial and service sectors.

26. We endorse the emphasis given by the international community, notably at the recent World Food Conference, to increasing food production and accelerating rural development. More and better food is needed to overcome the threat of starvation and to improve nutrition. Accelerated rural development is needed to improve the conditions of life of the millions who live in the countryside and to check the excessive migration to the cities, with its attendant problems.

27. At the same time, development of agriculture has to be placed in a setting of economic advance on a broader front. As countries develop, the growth of demand is more and more directed towards manufactured goods and the services on which modernized agriculture and industry depend. Furthermore, trade in manufactured goods is the fastest growing sector of international merchandise trade. While quantitative projections of export earnings of developing countries differ, all of them agree in showing that a major part of the increase of export earnings of developing countries as a group will have to come from exports of manufactures.

28. Over the past twenty years, the demand for many of the primary commodities exported by developing countries, and particularly for most agricultural commodities, has grown slowly, and has been further limited by the remaining measures of protection, serious for some commodities, and by the development of synthetic substitutes in the industrialized countries. This has limited the growth of export earnings, and hence the development potential, of many of the developing countries which are not yet able to diversify at all rapidly into non-primary activities. Accelerated development in many of these countries will continue for some considerable time to depend on buoyant export markets for primary commodities, liberalization of market access where this is limited at present, other improvements in trading conditions, and measures to accelerate development of processing of primary commodities in their countries of origin. Accordingly, these questions are considered in detail later in this Report. We also pay considerable attention to the development of manufacturing and related questions of transfer of technology, in line with the importance already assigned to increasing exports of manufactured goods.

29. Narrowing the gap will also depend on acceleration of both capital formation and technological change in the developing countries. We believe that a new international economic order will be meaningful only if the global process of capital formation begins to favour the poor developing countries. There is a pressing need to establish built-in processes and international mechanisms to bring about a more rapid accumulation of capital — including human skills and organization — within the poor societies relative both to the hitherto distressingly slow historical process in these countries and to the hitherto relentlessly speedier process of capital formation and technological advance within the already wealthy societies.

30. At the heart of the development process in both agriculture and industry is the diffusion and assimilation of productive technology and methods of organization adapted to the particular circumstances and needs of each country. To close the technological gap, in many respects the most basic of the many gaps which separate the poor from the rich countries, the developing countries need not only to adapt technologies and methods derived from the world outside but to build up their own capacities in research and innovation. This is of fundamental importance not only because the social and economic objectives of developing countries may differ from those of the industrialized countries which have hitherto been the main centres of innovation, but also because the different resource and factor endowments of developing countries demand different methods — for example, more labour-intensive technologies. Beyond research and development is the task of management, again to be developed within an indigenous framework, involving the assimilation of capital equipment, technical know-how and principles of organization into operative structures.

External conditions for development

31. The actions and policies within developing countries required for development will only be fully effective, and often will only be at all possible, if supported by the necessary external conditions and cooperation. An effective transfer of technology on suitable terms and conditions can be of great benefit to developing countries. They

need full access to buoyant markets for their exports, so as to be able to import adequate and increasing amounts of the goods and services which they need to complement those they can produce for themselves. At the same time, even with the changes in the regime of international trade which we examine and endorse in this Report, we consider that many developing countries will continue to need more resources from the outside world than they will be able to pay for from their commercial earnings, and hence to need continuing large net capital inflows, much of them on concessionary terms.

32. Just as the processes of development are complex and inter-related, so they depend on a wide range of inter-related external conditions and support. The evident inter-relationships between fields such as, say, commodities, industrialization, the transfer of technology and development assistance for example serve to indicate the value of working out coordinated and consistent programmes of action in these fields. Moreover, international development policy must take into account the differing needs of particular developing countries in terms of their resource endowments and levels of development. If adequate provision is to be made for a new era of progress throughout the developing world, then a whole array of measures and instruments will have to be employed to take care of the varying needs and circumstances that have to be accommodated.

33. Limitations of time and readily available information prevented us from giving as full consideration to some topics as was given to others. This has led to some unevenness in the presentation. Where the treatment of a subject has been essentially tentative in nature, we have sought wherever possible to provide indications regarding some of the directions in which immediate progress can be made and to suggest how further work in these fields can be advanced.

SECTION 2

COMMODITY ARRANGEMENTS

The role of trade

34. As already observed, the principal purpose of a new international economic order is to create an interdependent world economy in which all nations enjoy equality of opportunity in taking advantage of the benefits that can flow from the exchange of goods and services and the international movement of capital. It follows from this that trade has a central role to play in securing those progressive improvements in the international distribution of income that would be required for closing the gap in wealth and productive capacity between the rich and the poor countries. Indeed the whole purpose of concerted international action is to reach a point in time when all other measures will have comprehensively yielded results in favour of a just and dynamic balanced international trade relationship. This will be achieved through a process by which more and more developing countries acquire the necessary breadth and depth of productive capacity as part of a just division of international productive effort generating their own self-sustaining growth.

35. If trade is to serve as a genuine engine of growth for the developing world, bold steps are needed to correct those deficiencies in present trading arrangements which in many cases constrain, in others frustrate, the efforts of developing countries to achieve desired increases in their export earnings. Comprehensive action is called for with regard to trade in both primary products and manufactured goods. We begin by considering primary commodities.

The approach to commodity policy

36. Dissatisfaction with the operation of markets for primary products is long standing, and the conviction is widespread that urgent attention should be given to improvement of the organization of these markets. Many countries, both exporters and importers of commodities from their separate standpoints, regard isolated commodity arrangements as an unsatisfactory solution and favour a more comprehensive and concerted approach to the problems of commodity trade. The present situation is characterised by the continuing steep price increases for manufactured goods, weak markets for many primary commodities and a consequent sharp decline in the terms of trade of many developing countries. Low prices for primary products also discourage investment and output and eventually lead to shortages and high prices. The need for immediate action is clear.

37. In recognition of the seriousness of the situation, Heads of Government requested us to consider various proposals, "...with particular reference to the integrated commodities programme recommended by the Secretary-General of UNCTAD, current proposals of buffer stocks, for indexation, and other relevant proposals, including the proposal for a general agreement on commodities".^{1/}

^{1/} Cf . Annex I, paragraph 4 (i).

General guidelines

38. As a basis for evaluating the proposals in this field, we began by establishing some general guidelines which could be applied in working out a detailed policy. These are:

- i. The principal purpose of commodity policy should be to introduce a new dynamic relationship between developing primary producing and industrialised countries, with a view to securing a progressive increase in the real export earnings of the developing countries which would among other things allow for the establishment of acceptable standards of living for producers.
- ii. While market forces are an important factor in the determination of international prices for primary products, the absence of fully competitive markets for many of these products has tended to work against the interests of primary producers. Suppliers of manufactures and capital goods tend to be price-makers rather than price-takers. For this and other reasons, the establishment of satisfactory relationships between the prices of primary products and manufactures will require adoption, through appropriate commodity arrangements, of a more general system of negotiated prices for primary products.
- iii. Other objectives of commodity arrangements should include the protection of exporters against major short-term fluctuations of earnings and importers against major short-term fluctuations of prices. They should also ensure adequacy of supplies in both the short and the long term.
- iv. It should be the aim to establish commodity prices which take full account of the interests of both producers and consumers. Commodity prices should clearly be remunerative to producers. The concept of a remunerative price should take into account a complex of factors including variations in the money and non-monetary costs of production between individual sources of supply; and allowance for a reasonable rate of return to the producer and to the national economy as a whole.
- v. An element in determining the remunerative price should be its purchasing power in relation to imported goods and services, including those of imported inputs used in the production of the primary products concerned. At the very least, commodity arrangements should provide for adjustments in commodity prices which would bear some accepted relationship to changes taking place in the prices of imported goods.
- vi. Producing and consuming countries should cooperate in appropriate cases to introduce measures which would ensure that a more satisfactory share in the total value added and employment generated from the extracting to the final product stages accrues to developing countries. In this connection, one important step would be the accelerated development of processing facilities in developing countries and the provision of improved market access for exports of these processed products particularly in the developed countries.

- vii. Joint efforts are called for between developed and developing countries to promote where appropriate an expansion in demand for, and wider consumer acceptance of, primary and processed products from developing countries. These should include suitable arrangements for promotion, research designed to improve quality and regularity of supplies, and research into new uses for primary commodities.
- viii. In cases where difficulties might be experienced in reversing any downward trends in demand for particular products, the developing countries so affected should be assisted by the international community to diversify their economies.

The UNCTAD programme

39. UNCTAD has put forward proposals for an integrated programme that involve common approaches and joint action in respect of a number of commodities. It envisages separate arrangements for individual commodities, taking account of their distinctive features, and a common framework the focus of which would be a central financing facility.

40. The main elements of the programme are: (a) the establishment of international buffer-stocks for a number of commodities; (b) the creation of a common fund to finance these stocks; (c) the setting up of multilateral supply and purchase commitments by governments of producing and importing countries; (d) the encouragement of improved compensatory financing arrangements for residual fluctuations in prices and earnings, and also for shortfalls in earnings from commodities not taken care of by buffer-stock or other commodity arrangements; and (e) the implementation of measures to encourage processing in producing countries and the diversification of production.

41. We regard the proposed common fund as the most important element in the programme, and its establishment as essential if an integrated plan for commodities is to make a major impact. Financing is crucial in the setting up of effective buffer-stock schemes; and on the expectation that stock accumulation would be taking place for some commodities while other stocks are being released, a common fund could result in a considerable saving in financial requirements. These requirements would not all represent additional financial resources since the setting up of buffer-stocks would reduce the need for other stockholdings.

42. We believe that a common fund could act as a catalyst for the establishment of new agreements and its capital resources would give a new impetus to the setting up of commodity arrangements.

43. We see the integrated programme recommended by the Secretary-General of UNCTAD as a major sustained and comprehensive attack on the commodity problem, and urge the acceptance and implementation by the international community of a programme on these lines. We recognize, however, that it will be necessary to consult with the appropriate authorities regarding the financing of the common fund, as well as with exporting and importing countries on individual commodity arrangements. We

therefore urge that the Secretary-General of UNCTAD undertake the necessary consultation with a view to completing all preparatory work as soon as possible and submitting a final plan for approval not later than the Fourth Session of UNCTAD.

44. Clearly, a wide measure of international co-operation and effort would be needed in setting up the common fund, and importers as well as exporters should contribute to its capital. There is increasing recognition of the gains to importing countries from stabilization — in preventing the exacerbation of price fluctuations, assuring supplies, facilitating efficient production and encouraging orderly world economic progress. Petroleum-exporting countries might also wish to contribute to the fund in view of both its investment possibilities and the opportunity it provides for a significant contribution to international economic co-operation. Assistance from the international financial institutions would be crucial in helping to bring about international acceptance and early establishment of the common fund. We note that the IBRD has been considering buffer-stock financing, and that the IMF has been re-examining its buffer stock facility. We urge both of these institutions to conclude their examination of these matters urgently, with a view to providing loans direct to the fund.

45. The existence of buffer-stock schemes, multilateral commitments and other commodity arrangements would still leave a large role for compensatory financing. In commodity arrangements the emphasis is usually on price stabilization, but there can still be fluctuations in the earnings from products covered by these schemes, resulting from ineffective price stabilization, crop failures or other unexpected supply problems. For residual export shortfalls after commodity arrangements have had their effect, compensatory financing might be the only practical mechanism for supporting earnings. Such schemes, therefore, have a very important complementary role, especially for poorer countries whose exports might not be amenable to other commodity arrangements. We therefore strongly recommend that compensatory financing should become a long-term established arrangement in international economic relationships, capable of meeting the needs of the developing countries concerned in terms of both the timing and the magnitude of damage incurred.

46. The only schemes in existence at present are the EEC Export Earnings Stabilization Scheme (Stabex) and the IMF Compensatory Financing Facility. The former has only recently been adopted, and is limited in scope both in terms of country coverage and the extent of support it will provide.

47. The Stabex scheme cannot yet be evaluated in terms of its practical operation. Some shortcomings of the scheme are the use of only past earnings to determine the target level which is to be supported and the commodity-by-commodity approach. The use of past earnings in a long reference period has the great disadvantage that, in a period of high inflation, the target level becomes unrealistically low and out of line with the current trend of earnings.

48. Improvements to the IMF scheme have been under consideration for some time. Accelerated efforts are required to bring about a broader, more liberal and more effective scheme. We welcome the attention being given to this matter by the Interim Committee, and the Board of Governors should be called upon at their next meeting in September to give this matter priority attention.

49. We believe there is considerable scope for improving the IMF scheme, based upon concepts developed in other proposals and schemes, including Stabex. In particular we believe the following concepts should be incorporated in an improved IMF arrangement: giving the least developed countries special terms, which could include the provision of interest-free loans; relating the upper limits on transfers to the size of short-falls based upon target increases in export earnings rather than to quotas alone; allowing longer periods for repayments, which should be based on the recovery of export earnings.

50. Stabilization measures to maintain real earnings can be frustrated by world-wide inflation which leads to increases in import prices and deterioration in the terms of trade. Comprehensive short-term lending facilities by multilateral institutions are one of the mechanisms that can be introduced for dealing with this problem; and we hope that the IMF will give urgent attention to this possibility. The establishment of the Extended Fund Facility for structural imbalances is a useful addition in view of the longer repayment terms; but we feel that, instead of the creation of new and separate facilities, there would be considerable advantage in establishing a larger and consolidated facility which could satisfy the needs for both short- and medium-term finance.

51. Our proposals regarding compensatory financing do not entirely dispose of the foreign exchange problems of the poorer developing countries. For these countries, aid measures on concessionary terms are also required. A comprehensive and integrated programme for commodities should include action along these lines to cater for their special problems.

52. The terms of trade of those developing countries which are net importers of commodities covered by the commodity arrangements could be adversely affected in so far as the arrangements raised the average price of the imports of these commodities. This could be particularly disadvantageous for those least developed, land-locked, and island developing states with limited natural resources. Special consideration should be given to cases where such adverse effects arise, and appropriate facilities built into any integrated programme for commodities. Such facilities should be of a systematic and predictable nature: they might take the form of compensatory financing, the granting of rebates, or, in appropriate cases, concessionary sales from buffer stocks.

Indexation

53. Indexation should be one of the important elements in commodity arrangements and in regular price reviews under such arrangements. By indexation we mean measures designed to maintain the purchasing power of the prices received by

developing countries for their exports in relation to the cost of the products they import. These measures should be seen as an important element in any package of policies to assure remunerative prices to producers (cf. paragraph 38 (iv) and (v) above) and steady supplies to consumers.

54. Indexation is not designed to raise prices in real terms, but to maintain their purchasing power so that the benefits of a rising volume of exports will not be eroded. It could have particular importance during a period of high inflation, when relative prices of exports and imports of developing countries could diverge substantially without changes in underlying factors such as productivity.

55. There are obvious technical problems in the use of indexation, and these will have to be studied in the context of particular commodity arrangements. These technical problems should not, however, be over-emphasised. While the importance of allowing market forces to operate is fully recognized, indexation has to be seen as one of a number of measures designed to assist stabilization and to allow adjustments for the imperfections and sluggishness of market forces. In this light, indexation can be regarded as helping to improve the operation of market forces, to ensure adequate long term supplies, and to bring about the appropriate balance between long-term supply and demand.

56. A price regulation mechanism must take into account long-term trends in demand and supply, and the operation of such mechanisms would have to be frequently reviewed if over-supply and the encouragement of inefficient production were to be avoided. Price regulation must take into account the interests of consumers in the short run and also in the long run, through the orderly development of production and the assurance of supplies. The participation of exporting and importing countries in commodity arrangements would help to ensure that the interests of both producers and consumers are taken into account.

Producers' associations

57. We accept that the emergence of producers' associations is a reality born of historical experience. In an unequal world it is understandable that such a development should take place. It has its historical counterpart in the evolution of trade unions in the industrialised world, through which originally unorganised poor workers were able to achieve an effective countervailing power.

58. We believe that the positive characteristics of producers' associations should be acknowledged and indeed encouraged, particularly in undertaking research and development; in evolving new methods of production and utilization of a commodity; in providing a forum for the exchange of economic, statistical and technical information between member countries, and in enabling balanced negotiations to take place between the owners of the resources and the multinationals wishing to acquire them. Furthermore, for commodities which are a vital part of the foreign exchange earnings of one or a few countries, but not significant in the total costs of any country's imports, producers' associations can be specially valuable. Wherever possible, such associations should be seen as a prelude to, and a necessary part of, negotiations leading to long-term co-operation between producers and consumers.

Synthetics

59. Exports of certain primary products from developing countries, e.g. fibres, natural rubber and leather, have been adversely affected by competition from synthetic substitutes. In many cases the preference for synthetics is the result of a desire of importers to have control over the supplies of essential inputs. The wide fluctuations in prices of primary commodities is a further factor.

60. In the coming decade or two, many developing countries will also be undertaking large new investments in the production of synthetics, particularly those based on oil and gas. While it is neither desirable nor feasible to retard or halt technological progress in the field of synthetics, it would be appropriate, in the context of the new international economic order, to consider measures which would protect the interests of primary-producing countries. In addition to the measures proposed by us for the stabilization of prices of primary products, supplementary measures are urgently needed to improve the competitive position of natural products vis-a-vis synthetics. The principal areas of action which need urgent consideration and action are:

- i. Research and development to improve the performance and extend the range of end uses of the natural products. For this purpose, substantial financial and technological resources will be needed, and these will have to come through increased aid from appropriate international agencies and through bilateral assistance.
- ii. A closer and more effective collaboration among producers of natural and synthetic products that would include identifying and developing the possibilities of complementarity and joint R & D (e.g. production of new or improved textiles by combining the natural material with synthetics).
- iii. A degree of restraint by governments in encouraging or artificially stimulating the development of synthetics and, where necessary, the imposition of fiscal disincentives on synthetic substitutes in order to ensure that internationally agreed prices for natural products are maintained, thus mitigating the harmful effects of the growth of synthetics on the poor countries of the world which are the main producers of competing natural products.

Investment in production of non-renewable resources

61. We note with concern that investment in mining has recently declined. Moreover, the increasing costs of extraction, together with long-term expansion of world demand, suggest that conventional sources of capital may not be sufficient to finance future exploration and development of these resources at an adequate level. New forms of partnership between capital, technology and natural resources will be needed. Attention should therefore be given to the mobilisation of international funds for this purpose. To this end, governments and international agencies should increasingly undertake the financing of feasibility studies, and the carrying out of preliminary exploratory work on favourable terms should also be encouraged.

A General Agreement on Commodities

62. Our terms of reference required us to examine other commodity proposals including the submission on a general agreement on commodities. The debate on the entire issue of commodity policy has been pursued in a number of different fora and an international consensus seems to be emerging. We believe that the next step should be to transfer this wider measure of agreement into action at the earliest possible moment. We have already set out our specific proposals to this end. However, since trade in commodities plays such an important role in the new economic relationship we wish to see established between developed and developing countries, we believe that a comprehensive agreement could be of value at an appropriate stage.

SECTION 3

TRADE LIBERALIZATION AND ACCESS TO MARKETS

The Multilateral Trade Negotiations and national actions

63. The Tokyo Declaration, adopted by the participants in the current Multilateral Trade Negotiations (MTN), set out objectives for securing additional benefits for developing countries. These included a substantial increase in foreign exchange earnings, diversification of exports, acceleration of the rate of growth of trade, participation and a better balance in the sharing of the advantages in the expansion of world trade, substantial improvement in the conditions of access to markets, and stable, equitable and remunerative prices for primary products.

64. We believe that these objectives must be urgently translated into practical measures by all governments concerned, at as early a stage as possible during the MTN. We urge that the developing countries themselves should intensify their participation in the negotiations and bring their concerns vigorously to the attention of the wealthy countries, who in turn should not allow benefits to developing countries to be simply a by-product of deals among the major trading blocs. We recommend that special consideration be given to aspects affecting the ability of the developing countries to realize the full benefits of trade liberalization. As they seek, for example, to encourage the processing or semi-processing of primary products, in order to achieve greater returns to their economies or greater employment for their peoples, tariff barriers for such exports tend to escalate in the importing countries. Moreover, the costs of industrialization are high in many developing countries, particularly the least developed, where the necessary infrastructure is non-existent or rudimentary. Special concessions are required for the least-developed, the landlocked and island developing countries if they are to build up successfully an industrial base and increase their exports of primary products or manufactures.

65. Rules of origin applied by importing countries to the exports of developing countries are frequently too restrictive. The initial establishment of industry in the developing countries, particularly the poorest ones, might well mean that the value added they could achieve is less than the developing countries themselves desire or the developed countries would ordinarily find acceptable. However, both parties have to work on the basis of what is possible, and rules of origin should be modified to reflect this reality. They should also be flexible enough to permit the establishment and growth of regional and inter-regional industrial projects where more than one developing country can have an input into the final product to be exported. Beyond the removal of such restrictive features, we consider it equally important to achieve rapid progress in the harmonization of origin rules among the major developed countries, and the standardization of administrative procedures if the growth of export-oriented industries in developing countries is not to be frustrated by the complexities of export documentation. Finally, we consider that careful consideration should be given in the MTN to removal of such adverse effects to the exports of developing countries as could arise from application of systems of valuation for duty other than those on a c.i.f. basis.

66. It is our firm view that the wealthier countries should not wait until the conclusion of the MTN to introduce trading concessions for the benefit of developing countries. There could and should be advance implementation of tariff cuts of particular interest to developing countries. Such tariff cuts are frequently in the interest of the consumers in wealthy countries as well as of general benefit to their economies. In particular, we urge that tariffs and other restraints on the consumption of non-competing tropical products should be immediately removed.

67. The OECD countries have within their own national control the possibility of widening, making deeper tariff cuts in, and generally improving their GSP Schemes. We urge that such improvements be undertaken promptly. Similarly the wealthy importing countries can exercise considerable discretionary power in the imposition of non-tariff barriers. These should be the subject of intensive examination in the MTN where, in our view, more rigorous and more objective criteria should be adopted so that only clear cases of injury would permit the application of quantitative restrictions, countervailing duties, anti-dumping regulations or other safeguards. Even in these cases, barriers should be raised against developing countries only in exceptional circumstances, and should not be imposed upon the developing countries if they were not the source of the injury.

Adjustment measures

68. It is in the interest of all countries, both developed and developing, that the competitive advantages of developing countries in certain products, arising from lower labour costs or other reasons, should not be obstructed by restrictions on their exports. Not only should the exports of such products be encouraged; increased measures of adjustment within the importing countries should be undertaken so that planned and orderly phasing out of non-competitive industry within their own economies could take place. Although a few developed countries have attempted some adjustment measures, experience suggests that, where these are undertaken for domestic economic or other reasons and not related to the encouragement of imports from the developing countries, they may actually work against the latter objective.

69. We recommend that developed countries should undertake adjustment measures linked specifically to the promotion of imports from developing countries. If such measures become an important element of national policy in the developed countries, they could help to reduce the opposition of producers and organised labour to the liberalization of trade with developing countries, and thus enable consumers in the developed countries to enjoy the benefits of cheaper imports.

70. Measures facilitating full access for manufactured goods of developing countries to the markets of the developed countries need to be introduced urgently, if there is to be even a reasonable chance of reducing to manageable proportions the shortfalls in the export earnings of the developing countries as projected by certain international sources for 1980 and beyond.

The time frame

71. The time frames suggested in the above recommendations show that no single date can serve as a target for implementation of the various measures proposed. Rather, certain action is possible immediately, while other steps could be taken in advance of general implementation. In respect of the other items, we would hope that the international community itself would fix specific timetables for introducing measures. In this as in other similar instances, the guiding principle for action should be the compelling needs for immediate steps to accelerate industrial expansion in the developing world.

SECTION 4

ECONOMIC COOPERATION AMONG DEVELOPING COUNTRIES

Regional and inter-regional cooperation

72. The promotion of economic cooperation among developing countries is now a well-accepted part of international development policy. The past two decades have seen several regional and sub-regional groupings spring up in the developing world, the latest being the establishment of the Economic Community of West Africa. Recently, concrete initiatives have also been taken to promote cooperation on a wider scale, involving the development of trade and other economic links among the developing regions of Africa, Asia and Latin America.

Regional cooperation and integration

73. All of these efforts have traditionally taken as their starting point the need for larger markets to overcome the constraints of critical minimum size and economies of scale. All but a few developing countries face these limitations once efforts are made to extend the process of industrialisation beyond the production of a narrow range of light consumer goods. Increasingly, countries are finding that the most substantial gains from cooperation come not so much from the widening of markets through programmes of trade liberalisation as from joint efforts at complementary development of key activities and sectors. Thus, the development of large agricultural projects on a sub-regional or regional scale is now becoming a feature of some integration groupings. Likewise, some groupings are giving attention to joint projects designed not merely to satisfy regional demand, but also to supply exports to countries outside the regions in question.

74. Although these new emphases hold the promise of making regional integration a more substantial element in development policy, it is regrettably the case that some regional groupings are making little progress, and in one or two cases are virtually at a standstill. The reasons for such stagnation are complex, and specific details tend to vary from case to case. Yet there are a few problems which tend to be common to most groupings.

75. One of these is the tendency for the main benefits of integration to flow towards the relatively more developed partner countries. Although the measurement of the benefits and costs of integration is a complicated matter, it is sometimes argued that improvements in the intra-regional balance of trade of a particular country or the concentration of new regional investment projects in that country can be taken to represent crude evidence of integration gains. Typically, therefore, the less developed countries in the grouping tend to find themselves having to face the costs of more expensive imports arising from the process of trade diversion without compensating improvements in their export earnings from sales to the rest of the region. Accordingly, nearly all groupings now have special programmes to counteract tendencies towards polarisation among their less developed member states. These developments need to be extended and generally deserve the support of the international community.

76. Associated with this problem of unbalanced development is the weakness in regional infrastructure. Most groupings in developing countries are required to function without adequate facilities in the field of intra-regional transport and communications, and for the financing and clearing of intra-regional trade. This works particularly against the development of intra-regional trade in agricultural products, where limitations such as transport, storage, and market intelligence often remain to be overcome. The less developed countries, which tend to count initially on agricultural products for expanding their exports to the regional market, are therefore placed in a particularly unfavourable position.

77. The international community has consistently shown interest in the development of integration groupings among developing countries. However, the historical and contemporary experience suggests that there is need for new initiatives designed to develop a comprehensive programme of international assistance in this field. Such a programme should give greater emphasis than has been accorded in the past to supporting the integrated development of key sectors and achieving more balanced development between individual countries in groupings. Among other things, this will call for more substantial efforts by the developing countries concerned in the identification and preparation of multi-national projects and in coordinating their approaches to development assistance. A useful step was recently taken in the Lomé Convention where, by common agreement, 10 per cent of the European Development Fund was set aside for regional projects. Similar activities might serve to generate a new confidence among participating countries about the prospects for achieving early and substantial results from regional cooperation. As far as technical assistance is concerned, the international community can support the work of integration secretariats by financing research and pre-investment studies in the field of regional project development and overall planning. Benefits could also be gained by schemes of cooperation among the integration secretariats themselves that would promote an exchange of comparative experiences, and in particular instances perhaps even a pooling of resources for undertaking work of common interest.

Inter-regional cooperation

78. Much of what has been said about cooperation at the sub-regional and regional levels applies with similar force at the inter-regional level. Here, some of the difficulties described above are merely compounded by the relative absence of the common bonds of geographical proximity and historical and cultural development, which form part of the basis for sub-regional and regional schemes. Yet, an imaginative view of the future must encompass possibilities for closer trade and economic ties between the developing regions. In this connection, we support the initiatives taken by the Non-Aligned countries to set up an Action Programme to promote economic cooperation between themselves and other developing countries in the fields of trade, industry and transport. We also endorse the efforts that are being made in the GATT to liberalise trade among developing countries. We suggest that the opportunities afforded by the Multilateral Trade Negotiations be utilised for promoting further advances with this matter.

79. In the sphere of inter-regional cooperation, it goes without saying that financial and technical support from the international community has an important part to play.

SECTION 5

FOOD PRODUCTION AND RURAL DEVELOPMENT

Food shortages

80. The facts of food shortages, malnutrition and rural poverty in the developing countries are too well known to need repetition here. Food deficiencies persist in many of them despite notable increases in production, while in others production has not kept pace with rising populations. This has resulted in an increasing resort to imports, thus adding to the strains on balances of payments and to the vulnerability of their populations to hunger in times of world food shortage. Food imports by developing market-economy countries rose by 40 per cent in the decade to 1972 and, on the basis of past trends, the World Food Conference Secretariat projected their cereal import requirements to rise from 16 million tons in 1969-71 to 85 million tons in 1985, or even to 100 million tons if the season is one of bad harvests.

International initiatives

81. International concern about increasing hunger and poverty in the developing world led to the calling of the World Food Conference in November 1974. The consensus of the Conference was that a solution to the food problems of developing countries must be sought in programmes of overall rural development having the general aims of self-sufficiency in food production and substantial increases in rural incomes and standards of life, although considerations of comparative advantage indicated that increased production for export in association with greater food imports is the best course for some countries. We associate ourselves with this consensus and agree with the wide-ranging programme of measures for development identified by the Conference.

82. We strongly support the initiatives taken by the Commonwealth Ministers at their meeting in March 1975, and endorse their view that the problems of food production and rural development should be given the highest priority in all international and national efforts in the future.

Special infrastructure needs

83. We wish particularly to emphasize the urgent need for effective action to develop the rural infrastructures and food production capabilities of a number of key areas, such as the Sahel and Bangladesh, which are especially vulnerable to food shortages. We believe the situation in these areas to be unacceptable to the international community, and urge donor countries and the appropriate international agencies to initiate without delay a comprehensive programme of investment in infrastructures such as dams, water control and improved soil fertility which will be sufficient to ensure that there is no repetition of recent tragedies.

Fertilizers

84. We are concerned about recent shortages and high prices of fertilizers and the constraint this has exercised on food production. We urge on donor countries the importance of commitments of fertilizers and cash to the International Fertilizer

Supply Scheme to enable the developing countries to fulfill their short term needs at reasonable prices. We stress too the necessity of providing the technical and financial assistance needed for the development of fertilizer production in developing countries. We ask the FAO Commission on Fertilizers to proceed with due urgency in its tasks of devising a world fertilizer policy, in the development of appropriate price stabilization measures and in the prosecution of studies on fertilizer production costs.

Fisheries

85. Side by side with developments in agriculture, much greater consideration than hitherto needs to be given to the development of the fishing industries which have the potential to make a significant contribution to increased food supplies in developing countries. This requires attention to methods for improving the efficiency of the industries, to increasing the size and quality of the fish catch, and to the development of fish farming in rural areas.

International institutions

86. Although governments in developing countries will naturally have the key role in rural development and bear responsibility for planning, determination of priorities and mobilisation of resources, they will require massive increases in both financial and technical aid if the desired levels of development are to be achieved. The World Food Council, set up by the United Nations to guide and direct the programme formulated by the World Food Conference and to promote the necessary international solidarity, should receive the wholehearted support of all developed and developing countries. Support for the Consultative Group on Food Production and Investment and the International Fund for Agricultural Development is also essential if the target set for increased financial aid for rural development is to be realised. It is hoped that donor countries will soon overcome the hesitation they have so far shown in pledging support for the Fund.

Rural organization

87. Before self-sufficiency in food production can be attained, the necessary organisational, technical and social framework for modern agriculture must be developed. This will require in most cases extensive land reform, the adaptation of production methods evolved in industrialised countries to the labour-intensive conditions of the developing world and, most importantly, the involvement of all rural people, for whom appropriate incentives must be provided, and their training in the application of new techniques.

88. Governments in the developing countries as well as donor countries and agencies must face up to some of the transitional costs of rural modernisation. For example, the changes that might be required in land tenure systems could well involve output losses in the short run, as the process of conversion to a new system begins. If the ultimate aims of rural transformation and development are to be achieved, the evaluation of agricultural and rural development projects must be based upon time horizons and cost-benefit criteria which take these wider transitional factors into account. Such a broader view could well resolve the present paradox of donor countries and agencies complaining of a shortage of agricultural projects to support while there is obvious underdevelopment and distress in the rural areas.

89. Success in rural development will also require an innovative and pragmatic approach to alternative systems of rural organisation. Countries will have to experiment with a variety of forms with a view to finding out what particular institutional framework can best provide the incentives that will stimulate popular participation and intensified efforts on the part of the rural population. Programmes of international assistance must therefore be flexible enough to encourage this kind of experimentation, and we recommend increased attention to this question by donor countries and agencies.

International assistance

90. We welcome the increased interest shown by the World Bank in the problems of rural development, and hope that it will continue to give greater emphasis to this branch of its activities. We urge the Bank, and other lenders as well, to introduce innovations in their lending practices, to enable them to participate in the kind of programmes referred to in the previous paragraph.

91. Donor countries and international agencies are asked to consider a large extension of local cost financing to allow rural communities to exercise greater initiatives and responsibility in their own development programmes. This would require the donors to develop confidence in the ability and integrity of the agencies involved in rural development in poor countries.

92. Developing countries will continue during the period of transition to rely on food aid to assist their development, to raise nutrition standards and to supplement supplies from other sources in times of emergency. It is hoped that donors will expedite their food aid commitments in order to enable the target of 10 million tons annually set by the World Food Conference to be met.

93. Governments are also urged to fulfill undertakings on world food security and to help to set up grain stocks in those developing countries which are likely to have the greatest difficulty in securing supplies in times of shortage.

SECTION 6

INDUSTRIAL COOPERATION AND TRANSFER OF TECHNOLOGY

The scope for cooperation

94. We consider that accelerated development of manufacturing activities must be a central part of a new economic order. As we pointed out in Section 1, in the course of development the increase of demand is increasingly directed towards manufactured goods. Measures to increase the pace of industrialisation present some of the most important opportunities for mutually advantageous cooperation between developing and developed countries. This development of manufacturing, in the broadest sense of the term, including artisanal activities, repair shops and other small enterprises, should take place not only in towns and cities, but also as an integral part of rural development. It must be based on technical and organisation methods suited to the needs and circumstances of developing countries, and particularly to their needs to provide greatly increased opportunities for remunerative employment.

95. New patterns of relationships between developed and developing countries, and among developing countries, in the field of industrial development are therefore a central element in our coordinated proposals. At the same time, initiatives in this area would need to be balanced with the priorities at present assigned to agricultural and rural development, so that activities in the two sectors would be complementary. New cooperative efforts in the area of industrial cooperation would normally be of greater benefit to the middle-income countries which have a growing industrial base, and special measures would therefore be required for the lower-income countries.

96. Noting that, according to the Industrial Development Board of UNIDO, developing countries accounted for only 7 per cent of world industrial production, we urge that steps be taken to bring about the necessary changes that would facilitate rapid growth of this share. We recognise that this will require a larger flow of capital and technology, and that such flows will need to be in a form consistent with the priorities and development plans of the recipient countries.

The need for new approaches

97. Traditional approaches to industrial development do not meet the needs of the present situation. The contributions of the private sector to industrial development, supplemented by the activities of individual governments and multilateral institutions, have not adequately advanced industrial development in many developing countries. Much industrial development in developing countries has been confined to "enclave" activities having minimal linkage effects with the rest of the economy, and a low level of permanent absorption and diffusion of technology and skills. As developing countries themselves have tried to re-define the parameters within which industrial development should take place, frequently involving greater public sector control and participation, the foreign private investor has sometimes believed his interests to be at risk and become less willing to provide the capital or skills.

98. We lacked sufficient time to consider what specific role should be envisaged for foreign private investment in the industrial development of the developing countries. The issues in this field, especially those having to do with the operations of transnational corporations, need thorough attention. We noted the discussions which have been going on in the international community on this latter question, and the international action which has so far been taken. We believe that, notwithstanding the progress which has been made in consideration of the matter, the search for effective solutions should continue as a matter of urgency, with a view to ensuring that the mistakes of the past are not repeated.

A package approach

99. The concept of industrial cooperation itself has grown up out of a desire to find new models for industrial development, and a variety of new forms of such cooperation could be conceived. For example, the recent Lomé Convention includes new institutional mechanisms for vertical cooperation between the European Economic Community and the ACP States. Several regional groupings have also made specific provision for horizontal cooperation among their member countries. The essential issue, however, in the view of the Group, was how to bring together the various elements which go into successful industrial development into a coherent package. Existing programmes often involved a confused and confusing array of instruments operated by donor countries, multilateral institutions and developing countries. These require closer coordination and integration both at the multilateral and bilateral level.

100. One of the most important aspects of industrial cooperation is the relationship between the industrialized country and the developing country. Cooperation could be greatly strengthened through the formulation of a package approach which would help to define the common objectives of the two governments and bring together the necessary components of industrial development. Two steps might be envisaged. The first would be the formulation of a general set of guidelines for bilateral industrial cooperation based upon the sorts of questions governments and private industry wish to raise when they seek to work together. An international institution such as UNIDO is in the best position to undertake this work. The second step is the implementation of these guidelines on a bilateral basis between industrialized and developing countries in the form of action programmes for joint implementation.

Transfer of technology

101. There are two aspects to the question of technology transfer. The first concerns the need for investment in the kinds of technology required by developing countries. The second has to do with the process of transfer itself.

102. On the first of these, we are of the view that the transfer of technology, if it is to be effective, has to be more concentrated on the specific requirements of the developing countries and more integrated into their internal structures, so as to become self-generating. For this purpose, we believe that one of the most pressing needs is the establishment, and where they already exist the strengthening, of indigenous Centres of Research and Development in the developing countries; and we

strongly recommend increased international support for such efforts. Indigenous centres are in the best position to adapt technology to local needs and to build up the capacity to utilize local resources, both human and physical, for the development of the society. In this connection, it will be appreciated that there will be the allied need for relatively massive investment in particular fields of technology, such as adaptations to local sources of energy, or the development of pharmacological products from new and improved natural sources of organic chemicals. Altogether it must be stressed that the transfer of technology must be seen as a continuing process, and not as a contribution which can be made on a once-and-for-all basis.

103. We agreed on the need to strengthen UNIDO, both financially and as regards the quality of its staff, to enable it to expand its present operational activities and action-oriented studies and research programmes in the field of industrial development. We consider, however, that UNIDO needs to sharpen its own priorities. There seems to be a tendency towards overlapping of functions, and a relative lack of effective coordination among the multilateral institutions involved in industrial development and transfer of technology. There could be a vital role for UNIDO as a centre for assistance in drafting industrial cooperation agreements; for industrial education and training (including management and production engineering); for the provision of advice concerning industrial strategies and the choice and adaptation of appropriate technology; and for activities in support of joint ventures and turnkey projects in the least developed countries, which might well feel a continuing need for supporting expertise.

SECTION 7

THE TRANSFER OF RESOURCES

The role of resource transfers

104. Capital flows and transfers of technology are a major feature of international economic relations. They take place between countries at all levels of economic development. Developing countries have a particular interest in all forms of international transfer of resources - private investment, direct and portfolio; export credits and other lending on commercial and near-commercial terms (some of it through international agencies such as the IBRD and regional development banks); and technical and capital assistance in the form of grants or loans on concessionary terms.

105. This section concentrates mainly on official development assistance (ODA) provided in support of national development efforts and on concessionary terms. Such assistance is needed for countries where the returns from major investments are delayed or uncertain, and in any case should have the advantage of leaving the major part of the returns at the disposal of the recipient country.

The limited availability of ODA

106. Between 1963-65 and 1970-72, annual average disbursements of ODA from the developed market economy countries to developing countries and multilateral organisations, net of amortisation, increased only from \$6,720 million to \$7,150 million when measured at constant (1970) prices. There was then a sharp fall in 1973, as the purchasing power of ODA disbursements was seriously eroded by inflation, but preliminary figures suggest some recovery in 1974.

107. Thus, as the developed countries have become richer and have increased their economic strength, they have not made available a comparable increase in the net flow of ODA to developing countries. As a percentage of the total GNP of the developed, market economy countries, ODA has progressively declined from 0.51 per cent in 1963 to 0.33 per cent in 1972, 0.30 per cent in 1973, and 0.33 per cent again in 1974. The real volume of net ODA flow from the United States decreased sharply from around \$4,000 million in 1963 and 1964 (at 1970 prices) to around \$3,000 million in 1969-72. The annual net flow from Britain averaged \$544 million in 1964-67, \$468 million in 1968-72 (again in 1970 prices).

108. These figures are recorded net of amortisation payments, but not of the related payments of interest. Against \$9,400 million disbursements of ODA, net of amortisation, by the developed, market economy countries in 1973 (at current prices), reverse flows of interest amounted to \$680 million.

109. By comparison with the flows from the developed, market economy countries, those from the centrally planned economies have remained small in total, though they are important for some developing countries. On the other hand, in 1974 and 1975 petroleum-exporting countries have emerged as an important source of capital flows to developing countries, including flows on concessionary terms.

110. By contrast with ODA, net flows of private capital (including export credits as well as other loans and private investments) from the developed market economies to the developing countries have shown much greater buoyancy, rising from around 0.29 per cent of the GNP of the countries of origin in 1964-67 to around 0.36 per cent in 1968-73. However, the value of these flows to the recipient countries is reduced by the large reverse flow of profit remittances and interest payments, and is also offset by capital outflows from the developing countries themselves.

Lessons of experience

111. The effort of the international community to bridge the gap between rich and poor countries through resource transfer has so far yielded only limited results, and this experience should provide a number of important lessons for the future.

112. The first is that as long as developing countries depend predominantly on primary commodity exports, the gains from resource transfer may be substantially offset by falling and unstable earnings from commodity exports. Arrangements for the stabilisation of primary commodity markets are therefore a necessary condition for realising the fullest advantage from resource transfer.

113. The second is that the special infrastructural needs of the developing countries for major works such as water control will require a more massive transfer of resources than the present targets, which themselves have not been fulfilled, can hope to achieve.

114. The third is that assistance to industrial development has been an area of serious neglect. For example, there are only a few instances where assistance has been provided for the development of industries based on the utilisation of major raw materials of local origin. In this particular area, the centrally planned economies have followed more flexible policies.

115. The fourth arises from the voluntary nature of resource transfer, changing political considerations and short-term economic calculations on which most of it depends. This has given rise to a great deal of uncertainty in national planning.

116. The fifth has to do with private investment, particularly through transnational corporations. On the whole, the distribution of the benefits from this investment has not been in favour of the developing countries. This situation has given rise to justifiable demands by the developing countries for new arrangements for private resource transfer to the directly productive sectors.

117. Another lesson concerns the inflexible debt-service obligations, which have created serious problems for the balance of payments, particularly in times of shortfalls in export earnings.

118. Finally, the terms of aid and other conditions imposed on concessionary resource transfer have made the effective terms of aid much harder than the nominal terms would indicate. Hence, the untying of aid and the relaxation of other conditions imposed on such resource flows could substantially increase the benefit of aid to the recipient countries.

The need for an increased transfer

119. At present, many developing countries are in grave balance of payments difficulties because of increased prices of imported petroleum, food, fertilizers, capital equipment and other manufactures while prices and demand for the goods which they export have collapsed as a result of recession in the developed countries. Thus, a marked increase in the transfer of resources will be needed in order merely to sustain a minimum momentum of development in much of the world and even to maintain minimum conditions of life in many of the poorest countries. And, if the greatest part of this increased transfer is not provided on concessionary terms, the result will be increasingly widespread and acute debt servicing problems, which could threaten the maintenance of development in the future.

A new dimension in international assistance

120. Beyond this need for what is essentially a holding operation, to maintain the inadequate momentum so far achieved, we see a pressing need for an entirely new dimension in international cooperation for development. A major increase in the transfer of resources is needed:

- to finance infrastructural works on a scale which is not even envisaged at present: we have in mind such programmes as arrest of the southward movement of the Sahara Desert in the Sahel area, flood control and protection against typhoons in Bangladesh, rural electrification and provision of pure water supplies;
- for the establishment and maintenance of major regional and sub-regional centres of research and development;
- to support regional and inter-regional cooperation among developing countries;
- to ensure adequate food supplies, both by support for agricultural development and through food relief as needed.

121. External assistance must be complementary to national and multinational efforts at self-help and cooperation. In general, it is evident that the transfer of resources from developed to developing countries should as far as possible cease to have the character of "aid" and assume that of cooperation, being regarded as part of an integrated effort to mobilise resources for human progress.

Targets for official development assistance (ODA)

122. By 1974, only one country of the OECD Development Assistance Committee (DAC), Sweden, was in compliance with the UN target of a net transfer of ODA equal to 0.7 per cent of gross national product (GNP). Belgium, Canada, Denmark, Australia, Norway, France and the Netherlands were in a band from 0.49 to 0.62 per cent of GNP. Britain and Germany transferred about 0.38 per cent of GNP. The remaining DAC countries, including the United States and Japan as well as Switzerland, Italy, Finland, Austria and New Zealand, all transferred 0.30 per cent of GNP or less, thus

pulling the weighted average for the DAC group as a whole down to 0.33 per cent of GNP. ^{1/} Several of these countries had transferred a considerably higher proportion of GNP in the past than they do now when they have grown richer by several years' increase of their per capita GNP. Transfers from the higher-income centrally-planned economies are very much smaller in relation to their products.

123. From our collective knowledge of the circumstances of many of the developing countries and from our study of the efforts which have been made to quantify the requirements of these countries for net inflows of resources, we have no hesitation in insisting that the present total transfer of ODA is too small and inadequate to meet the most pressing problems, let alone to support the kind of structural transformation required for a new economic order. In all too many cases, the effort being made is too small in relation not only to the needs of the poor countries but also to the capacities of the rich. We consider that the reasons developed countries have advanced in an attempt to explain why annual aid appropriations have failed to allow them to reach the 0.7 per cent target already, and in some cases have resulted in backsliding, have little economic substance or validity. Ultimately it comes down to a question of priorities which governments themselves attach to the needs of the developing countries as compared with the domestic demands. It is a question of political will. We therefore urge that all developed countries regardless of their economic and social system, and particularly those with per capita GNP of over \$2,000, should without any further delay implement the UN target of 0.7 per cent.

124. However, in view of the developmental needs which have been extensively considered above, we regard fulfilment of the 0.7 per cent target as only a necessary first step. We believe that the present needs of developing countries require an ODA effort equivalent to at least 1 per cent of GNP by 1980.

125. Lest it be said that provision of net ODA to the amount of 1 per cent of the GNP by 1980 would impose an intolerable burden, we estimate that for the developed, market-economy countries this would entail their devoting to increase of ODA only some 5 per cent of the amount by which they may reasonably be expected to grow richer between 1975 and 1980. They could thus retain 95 per cent or more of the increase of their GNP for their own use and still increase net ODA to 1 per cent of GNP by 1980. Such an effort would be relatively negligible in relation to the prospective increase of wealth and income of the developed countries and yet would substantially improve the situation in regard to the economic transfer of resources.

126. The volume targets need to be taken in conjunction with a target for the terms of ODA. In this connection, we endorse the terms target adopted by the DAC, i.e. the average grant element of at least 84 per cent. We hope that terms of assistance, particularly for the poorer countries, would be such that the period of repayment would be at least 40 to 50 years, with a grace period of at least 10 years and a maximum rate of interest not exceeding 1 per cent. We also recommend that the terms for the least developed countries should be even more concessionary. We urge upon

^{1/} 1974 Figures for Portugal not available.

those donor countries which are not yet doing so to provide outright grants to the least developed countries and the countries most severely affected by the recent world economic crises.

127. The advantage of concessionary terms can be reduced or even nullified if ODA loans are tied to provision of unduly expensive goods and services, thus hardening the effective terms, or if rigidities in the administration of ODA prevent its effective use in support of development of high priority. We urge that, in view of the adverse effects that arise from the tying of ODA, its terms and conditions be made as flexible as possible, particularly in increasing significantly the proportion which is untied. We also urge the removal of the present rigidities in the administration of assistance, for example by increased financing of programmes as opposed to individual projects, and of local development costs, including procurement on a regional basis.

Automaticity in resource transfers

128. Developing countries need not only increased transfer of resources, but the assurance of a continuing adequate flow. Both in relation to the total size of the flow and its continuity, we consider it important that an increased element of automaticity should be built into the transfer process.

129. In this connection, we consider that developing countries should have priority call on Special Drawing Rights (SDRs) through some form of "Link" mechanism. We consider that there are no insurmountable technical difficulties to the establishment of such a Link, and that its inauguration under appropriate mechanisms and disciplines need not await the completion of a comprehensive package of reform of the international monetary system.

Distribution of transfers

130. In recent months, a number of steps have been taken to increase the proportion of ODA going to the poorest countries, many of which have been particularly adversely affected by recent economic events. This has been done by redistribution of existing bilateral and multilateral programmes, in tandem with the United Nations Special Programme for the most seriously affected countries.

131. In the longer term, we see a continuing need to shift the balance in the transfer of resources in favour of the poorest countries. This will be most readily accomplished, with fairness to all, in a framework of rapidly increasing total transfers.

Other recent initiatives

132. For the immediate future, there is a pressing need for further additional assistance of an interim nature to help the countries seriously affected by recent economic events, to overcome their immediate problems. In this context, we support the proposals to create a flow of funds on intermediate terms by means of subsidization of interest of sums borrowed on essentially commercial terms, provided that the subsidy fund is additional to, and not at the expense of, provision of ODA at highly concessionary terms - e.g. through the forthcoming replenishment of the resources of the IDA. We also support the proposal to use IMF gold holdings, directly or indirectly, for the finance of transfers to developing countries on concessionary terms.

Debt relief

133. Most developing countries have accumulated considerable external debt, because sufficient attention has not been paid in the past to the terms of international assistance or to the concept of net transfer of resources. Consequently, the developing countries have accumulated a total financial debt in excess of \$120,000 million^{1/}, and the debt servicing liabilities are already taking away more than 50 per cent of the new assistance they receive. In a number of developing countries the size of external debt and debt servicing liabilities creates a serious obstacle to continuing development. This means that there has to be an ever-larger gross capital inflow merely to offset debt service payments before there is any positive step towards net transfer of resources. In several countries, the debt servicing problem is to a great extent due to the inflexible nature of debt service liabilities, which become a heavy charge in years of below-normal export earnings and other foreign exchange receipts.

134. Countries in this latter situation would obviously benefit from the trade measures proposed, which are designed to stabilize prices of their staple exports; and also from an adequate scheme of compensation of shortfalls of export earnings. Their situation could also be eased by increase of overdraft facilities on easy and concessionary terms from the IMF or other sources in periods of balance of payments difficulties arising from causes outside the control of the countries concerned.

135. We nevertheless judge that there is a core of countries suffering from serious and intractable problems of external debt which have grown out of proportion to their economic strength and prospects, and for which measures of rescheduling and relief of external debt are required. It is essential that the need of the poorest countries for large and continuing net inflows of resources should not be frustrated by large outflow of debt service payments. We therefore recommend that the World Bank, in consultation with the IMF, the UN and UNCTAD Secretariats, and the DAC, should be invited to reconsider the feasibility of developing guidelines which would establish a presumption in favour of automatic rescheduling and relief from external debt of particular developing countries. In some of them these should include the writing off of certain loans; and for the most seriously affected countries, the conversion of existing loans into outright grants. In the spirit of the new international economic order and the need for a larger transfer of resources, these measures should be introduced as a matter of urgency.

^{1/} End of 1973, excluding private debts not under public guarantee in the debtor countries.

SECTION 8

INVISIBLES

The importance of invisibles

136. Shipping, banking and insurance are an integral part of international trade. It is natural that users of these services, particularly developing countries, want to have a full say in these matters. Due to the limited time at our disposal for the completion of an interim report, we have not been able to give the comprehensive attention to these subjects which they deserve. At the same time, it is quite clear that no new international economic order can be meaningful without the international community fully supporting the efforts of the developing countries to secure full participation in these services which are so essential to the development and maintenance of their legitimate trade interests.

Shipping

137. Many developing countries have been pursuing the objectives of securing greater control over and benefits from shipping through the development of their own merchant marines. In some instances, this is being done on a multinational basis through sub-regional and regional schemes. We favour this basic approach to the problem, and consider that the international community should provide more financial and technical assistance in support of initiatives of this kind.

138. There is a wide range of measures which can be taken to further the interests of the developing countries in the field of shipping. These include the application of technological developments in shipping; the development of adequate transport infrastructure; the training of nationals in the technical and operational aspects of shipping; and concerted international action on trade facilitation and co-ordination including, in particular, trade/transport documentation, and the collation of reliable shipping statistics. Last but by no means least, further efforts should be made to find just international solutions in the field of regulation of the ocean shipping industry.

Banking and insurance

139. We consider that the development of banking and insurance services at the national level have an important part to play in the mobilisation and allocation of financial resources in developing countries. Some developing countries have already made important advances in these fields, and we have in mind that they could provide assistance to other developing countries requiring it. This would complement the transfer of managerial and other technical skills by developed countries, which is already taking place and should be encouraged.

140. In the case of insurance, there seem to be possibilities for collaboration between developing countries, especially at the sub-regional and regional levels in the development of re-insurance facilities. Such co-operation would, among other things, require harmonisation of the supervisory regulations and practices of the countries concerned.

141. In general, we feel that once adequate foundations have been laid in these fields at the national level, the developing countries would generally be better placed to participate in the provision of international banking and insurance services. In the meanwhile, those developing countries which are already in a position to enter these latter fields should be encouraged to do so.

SECTION 9

INTERNATIONAL INSTITUTIONS

Aspects of institutional reform

142. Our terms of reference required us to give attention to “reform and where necessary the restructuring of international institutions concerned with the management of international trade and finance and whether means could be found to increase the effective share of the developing countries in the decision-making process of major international financial institutions”. We consider this to be an important issue; and in fact at several points in our discussion, the structure and policies of international institutions concerned with trade and finance emerged as major constraints to progress and change.

143. However, it has not been possible in the limited time at our disposal to consider the many and complex aspects which have a bearing on the restructuring of these institutions. Nevertheless the question of institutional reform is an urgent one; and at this stage we would like to stress certain basic considerations which would need to be accepted by the international community.

144. In dealing with international institutional reform, it is necessary to distinguish between the functional and structural aspects. The former relates to operational effectiveness and covers questions such as the clearer definition of functions and the avoidance of duplication. These issues have received attention recently in the Report of the Group of Experts on the Structure of the United Nations System, and the recommendations are under consideration in the United Nations.

Voting structure

145. The structural aspects however are even more important and urgent. The present serious imbalance between developed and developing countries in the control and management of international financial institutions needs to be corrected without delay. This imbalance is a consequence of transplanting to the sphere of international institutions the principle of voting rights being proportional to financial contribution. This principle, which may be appropriate in the corporate sector in an industrial society, is not necessarily valid in relation to the purposes of international institutions. For this reason the capital structure and voting rights in the regional development banks which were established later are different. A similar approach needs to be adopted in the case of the IBRD and the IMF. We note the discussions that have so far taken place and recommend that, at the next meetings of the Board of Governors of the IBRD and IMF which are scheduled for September this year, Finance Ministers take up the question of securing changes in the voting rights in both of these institutions, that will give the developing countries a greater say in decision-making. Here, as elsewhere, we urge that the international community search diligently for methods of advance implementation which could yield desired results on a *de facto* basis while the necessarily longer process of negotiating formal institutional changes is completed.

Management

146. Restructuring of the voting rights will not by itself be enough. Poverty is a world problem, but it is more directly and intimately the problem of the developing world. In order to ensure that the international institutions are more effectively able to cater to the needs and aspirations of the developing countries, a larger share in the management structure for persons with direct experience of the problems of these countries is necessary. In this context, it will be desirable for the developing world to make available for such international assignments persons with requisite expertise and experience, even at the cost of some temporary inconvenience.

ANNEX I

TERMS OF REFERENCE

The following terms of reference were decided by Commonwealth Heads of Government at their meeting in Kingston, Jamaica in April-May 1975.

Economic matters

1. Commonwealth Heads of Government recognised the need to take immediate steps towards the creation of a rational and equitable new international economic order. They reaffirmed the statement included in the Commonwealth Declaration adopted in Singapore in 1971 that "the wide disparities of wealth now existing between different sections of mankind are too great to be tolerated . . . our aim is their progressive removal", and acknowledged the complexity, range and inter-related nature of the issues involved. They agreed that a small Group of Experts should be invited to draw up for consideration by Commonwealth Governments, in the context of the current international dialogue, a comprehensive and inter-related programme of practical measures directed at closing the gap between the rich and the poor countries. These measures would be designed to promote development and to increase the transfer of real resources to developing countries *inter alia* in the areas of production, distribution and exchange of primary and secondary products as well as services. Heads of Government recognised the importance in this context of cooperating to achieve an expanding world economy and world trade.

2. The Group of Experts should be selected from the Commonwealth on the basis of their personal capacities and their expert knowledge of contemporary problems of international economic development, and should be assembled in a way which would enable the perspectives of different regions of the Commonwealth and different national development strategies to be brought to bear on the problems concerned.

3. The Group of Experts should address itself to the issues and proposals elaborated in:

- i. The Declaration and the Programme of Action on the Establishment of a New International Economic Order as adopted by the United Nations General Assembly; and
- ii. the relevant principles of the Commonwealth Declaration adopted in Singapore in 1971; and
- iii. the concepts and proposals advanced during the discussions of the international economic situation at the Kingston Meeting of Heads of Government including the presentations by the Government of Guyana on behalf of the Caribbean and by the Government of Britain.

4. In drawing up a programme of practical measures the Group should pay particular attention to:

- i. measures to transfer real resources from developed to developing countries through international cooperation in the field of international trade in primary commodities with particular reference to the integrated commodities programme recommended by the Secretary-General of UNCTAD, current proposals of buffer stocks, for indexation, and other relevant proposals, including the proposal for a general agreement on commodities.
- ii. measures which the international community can introduce for assisting developing countries -
 - (a) to increase food production;
 - (b) to promote rural development;
 - (c) to promote economic cooperation among themselves at the sub-regional, intra-regional and inter-regional levels; and
 - (d) to obtain greater control over, and benefits from such activities as shipping, insurance, banking and other parts of the infrastructure for international trade and development.
- iii. programmes for industrial development involving new and expanded forms of industrial cooperation, the enlargement of employment opportunities in developing countries, and more favourable access to the markets of developed countries;
- iv. a review of existing organisations for industrial cooperation, and development;
- v. mechanisms for increasing the flow of long-term development funds, the transfer of technology and the transfer of real resources to developing countries; and
- vi. reform and where necessary the restructuring of the international institutions concerned with the management of international trade and finance, and whether means could be found to increase the effective share of the developing countries in the decision-making process of the major international financial institutions.

In all of the above matters due regard would be paid to the special needs of the least developed, land-locked, the most seriously affected, and island developing states with limited natural resources.

5. In drawing up its recommendations the Group of Experts should consider the feasibility of utilising relevant concepts and mechanisms embodied in recent economic cooperation agreements between certain developed and developing countries.

6. The Group of Experts should consist of not more than ten persons.

7. The members of the Group should be appointed by the Secretary-General after consultation with Member Governments.

8. The Group should aim at submitting to Governments an interim report on the results of its work indicating measures which are amenable to early and effective implementation in time to permit discussion of this report at the next meeting of Commonwealth ministers and to enable Governments to take this report into account before the Seventh Special Session of the General Assembly.

9. It is expected that the Group will endeavour to hold its first meeting by the end of May or early in June.

10. It would be desirable that the Secretary-General-elect should be associated at as early a stage as possible with the work of the Group.

11. Heads of Government appointed Mr. Alister McIntyre, Secretary-General of the Caribbean Community, Chairman of the Expert Group.

ANNEX II

LIST OF MEMBERS OF EXPERT GROUP

H.E. Mr. Alister McIntyre	—	Chairman
Professor A.D. Brownlie	—	(New Zealand)
Professor Nurul Islam	—	(Bangladesh)
Amir H. Jamal	—	(Tanzania)
H.E. Mr. P.S. Lai	—	(Malaysia)
Mr. L.M. Lishomwa	—	(Zambia)
Sir Donald Maitland	—	(Britain)
Shri Sharad S. Marathe	—	(India)
Professor H.M.A. Onitiri	—	(Nigeria)
H.E. Mr. L.A.H. Smith	—	(Canada)
Mr. J.P. Hayes	—	Secretary