



# **WORLD ECONOMIC SURVEY 1963**

## **I. Trade and Development: Trends, Needs and Policies**

**UNITED NATIONS**

Department of Economic and Social Affairs

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**UNITED NATIONS**

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# NOTE

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## FOREWORD

This report, *World Economic Survey, 1963*, is the sixteenth in a series of comprehensive reviews of world economic conditions published by the United Nations. It is issued in response to General Assembly resolution 118 (II), in which the Secretary-General was requested to prepare an annual review and analysis of world economic conditions and trends. The report is intended to meet the requirements of the Economic and Social Council and other organs of the United Nations for an appraisal of world economic conditions which may serve as a basis for recommendations in the economic field. It is also intended to stimulate interest in and discussion of international economic problems among a more general public audience.

Each year since 1955, the *World Economic Survey* has contained a study of a particular problem in the field of economic development. Among the subjects examined have been economic growth in the first post-war decade, balance of payments problems in relation to economic growth, inflation, post-war commodity trade and policies, experience and policies relating to investment and saving, industrialization and economic development, and foreign trade and economic development.

Part I of the *World Economic Survey, 1962* was sub-titled "The Developing Countries in World Trade" and it consisted of papers prepared by the Bureau of General Economic Research and Policies of the Department of Economic and Social Affairs of the United Nations Secretariat for presentation to the second session of the Preparatory Committee of the United Nations Conference on Trade and Development, held in May-June 1963. These papers were intended to focus on the principal economic issues that would be before the Conference and to summarize, as succinctly as possible, the current "state of the debate" on these issues.

In the light of the discussions that took place in the Preparatory Committee, a second series of papers was prepared in the Bureau of General Economic Research and Policies for the use of the Conference proper. These papers were addressed to the broad problem of trade as an instrument for economic development of the developing countries and dealt with the following topics:

- (a) International trade and its significance for economic development,
- (b) International commodity problems,
- (c) Trade in manufactures and semi-manufactures,
- (d) Finance in international trade.

They were based largely on the factual background presented in the first series and were designed to be forward-looking and policy-oriented.

As the problems they deal with are likely to be the subject of urgent and continuing international concern in the light of decisions reached in the Conference, these papers have been brought together under the sub-title "Trade and development: Trends, needs and policies" within the framework of part I of the *World Economic Survey, 1963* in the same way as the first series. As before, it is hoped that the early publication of these papers will make them available to a wider audience—in academic as well as in government circles—and so contribute to a broad public discussion of the policy issues involved.

Part II of the *Survey*, which is issued as a separate volume, contains an examination of recent events in the world economy. Chapter 1 provides an analysis of the recent situation in the industrially advanced private enterprise economies. Chapter 2 reviews recent events in the primary producing private enterprise economies. An assessment of the economic outlook at the beginning of 1964 is given for both these groups of countries; this is based largely on replies by Governments to a questionnaire on economic trends, problems and policies circulated by the Secretary-General in November 1963. Chapter 3 provides an account of recent changes in the centrally planned economies. In an annex to part II, changes in the world primary commodity situation during the period 1962/63-1963/64 are summarized. This analysis has been added partly because of the intrinsic importance of developments on international markets during this period and partly because, the Trade Conference having brought about the deferment of the ordinary May session of the Commission on International Commodity Trade, no *Commodity Survey* has been published this year.



## EXPLANATORY NOTES

The following symbols have been used in the tables throughout the report:

Three dots (...) indicate that data are not available or are not separately reported

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

A blank in a table indicates that the item is not applicable

A minus sign (—) indicates a deficit or decrease, except as indicated

A full stop (.) is used to indicate decimals

A comma (,) is used to distinguish thousands and millions

A slash (/) indicates a crop year or financial year, e.g., 1960/61

Use of a hyphen (-) between dates representing years, e.g., 1961-1963, signifies the full period involved, including the beginning and end years.

Reference to "tons" indicates metric tons, and to "dollars" United States dollars, unless otherwise stated.

The term "billion" signifies a thousand million.

Annual rates of growth or change, unless otherwise stated, refer to annual compound rates.

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

Certain abbreviations have been used: AID for Agency for International Development [United States]; CICT for Commission on International Commodity Trade; CMEA for Council of Mutual Economic Assistance; DAC for Development Assistance Committee [of the Organisation for Economic Co-operation and Development]; EDF for European Development Fund [of the European Economic Community]; EEC for European Economic Community; EFTA for European Free Trade Association; EPTA for Expanded Programme of Technical Assistance [of the United Nations]; FAO for Food and Agriculture Organization of the United Nations; GATT for General Agreement on Tariffs and Trade; IBRD for International Bank for Reconstruction and Development; ICCICA for Interim Co-ordinating Committee for International Commodity Arrangements; ICICI for Industrial Credit and Investment Corporation of India; IDA for International Development Association; IDB for Inter-American Development Bank; IFC for International Finance Corporation; OAS for Organization of American States; OECD for Organisation for Economic Co-operation and Development; OEEC for Organisation for European Economic Co-operation; OPEC for Organization of Petroleum Exporting Countries; SITC for Standard International Trade Classification; UNICEF for United Nations Children's Fund; UNRWA for United Nations Relief and Works Agency for Palestine Refugees; UNSF for United Nations Special Fund. "Rhodesia and Nyasaland" stands for the Federation of Rhodesia and Nyasaland.

The Republic of South Africa is so designated even where the material covers the period prior to 31 May 1961, when the country was known as the Union of South Africa.

Where statistical presentation has rendered it necessary, "Malaya" has been used to designate the Federation of Malaya and Singapore; "South Africa", the Republic of South Africa, South West Africa and the High Commission territories of Basutoland, Bechuanaland and Swaziland; and "UAR" the United Arab Republic.

The designations employed and the presentation of the material in this publication do not imply the expression of any opinion whatsoever on the part of the Secretariat of the United Nations concerning the legal status of any country or territory or of its authorities, or concerning the delimitation of its frontiers.

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**Section I**

**INTERNATIONAL TRADE AND ITS SIGNIFICANCE FOR ECONOMIC  
DEVELOPMENT**



## Chapter 1

### A REVIEW OF TRENDS IN WORLD TRADE

This chapter provides a brief account of the major trends in world trade in recent years, with emphasis on the international trade of the developing countries whose problems constitute the core of the economic issues currently before the United Nations. The basic trade data upon which it draws are set out in a separate document<sup>1</sup> prepared for the United Nations

<sup>1</sup> United Nations, "Handbook on International Trade Statistics" (mimeographed document E/CONF.46/12/Add.1).

Conference on Trade and Development. The chapter does not discuss policy issues beyond drawing attention to the most salient among them. A more detailed analysis of the trends in primary commodity trade and in the trade in manufactured goods, as well as of the relevant policy issues, is presented in some of the chapters that follow. The present chapter is designed to serve simply as a concise introduction to the basic trade data and to those more specialized chapters.

#### Over-all trends

World trade has, on the whole, been quite buoyant in recent years. There have, of course, been occasional set-backs; for example, it suffered a decline in 1958 as a result of the downturn in economic activity in the United States and a pause in aggregate production in western Europe. But the set-backs have been few and invariably of short duration, and the flow of trade has fairly quickly regained its momentum. The large volume of statistical information that has now become available clearly indicates that the trend in world trade has been markedly upward. Thus, in the span of twelve years between 1950 and 1962, the value of world exports more than doubled. More precisely, the value of exports rose during this period from \$60.9 billion to \$138.5 billion, or by 128 per cent.<sup>2</sup> As an average compound rate, this represents an increase of 7.1 per cent per annum.

The expanding flow of world trade in recent years is in marked contrast to the sharp contraction recorded during the pre-war years. In the decade following 1928 which witnessed a severe world-wide depression and the growth of autarkic tendencies in several countries, world exports shrank to a very low level. The outbreak of the war in 1939 provided a further jolt to international commerce. It was not

until 1948 that world exports regained the level reached two decades earlier.<sup>3</sup>

The post-war years, fortunately, have been free from the upheavals of the nineteen thirties. The world economy, in fact, has been expanding vigorously, aided in no small measure by governmental policies which everywhere have been enlarged and strengthened not only to make depressions a thing of the past but also to ensure economic growth. It is this vigour of over-all expansion of the world economy which has provided the principal impulse for the growth of world trade. An additional contributory factor has been the gradual removal of trade controls which the industrial countries of western Europe were compelled to adopt in the early post-war years in order to prevent pent-up demand from draining away their foreign exchange resources. Over the years, there has also been an increased flow of funds to the developing countries from the economically advanced countries which has contributed to raising the level of world trade.

The upward trend in the world trade in recent years does not, however, imply that the rate of increase has remained unchanged. In fact, as is evident from table 1-1, there has been a definite slackening in the rate of increase with the passage of time. In the first half of the nineteen fifties, the value of world exports rose at a rate of 8.4 per cent per annum;

<sup>2</sup> Excluding "special category" exports of the United States.

<sup>3</sup> See United Nations, *Statistical Yearbook, 1962* (Sales No.: 63.XVII.1), page 153, and League of Nations, *The Network of World Trade* (Geneva, 1942), page 99.

Table 1-1. World: Value of Exports, by Exporting Country Group, 1950-1962<sup>a</sup>

Exporting country group	Index, 1962			Percentage annual rate of growth				Percentage distribution			
	1950 =100	1955 =100	1960 =100	1950- 1962	1950- 1955	1955- 1960	1960- 1962	1950	1955	1960	1962
World .....	228	152	110	7.1	8.4	6.6	4.9	100	100	100	100
Developed market economies	251	158	111	8.0	9.7	7.4	5.2	60	64	66	66
Developing market economies	150	122	106	3.4	4.2	2.9	2.8	32	26	22	21
Centrally planned economies	353	187	115	11.1	13.6	10.1	7.4	8	11	12	13

Source: See United Nations, "Handbook of International Trade Statistics" (mimeographed document E/CONF.46/12/Add.1).

<sup>a</sup> F.o.b. values. "Special category" exports of the United States are excluded. Components do not always add to totals because of rounding. Country coverage is as follows:

*Developed market economies:* North America, western Europe, Australia, Japan, New Zealand and South Africa;

*Centrally planned economies:* Union of Soviet Socialist Republics, eastern Europe, Yugoslavia, mainland China, Mongolia, North Korea and North Viet-Nam;

*Developing market economies:* rest of the world.

but in the second half of the decade, the rate of increase amounted to 6.6 per cent per annum; and in the early part of the nineteen sixties, the rate was rather less than 5 per cent per annum. Such a pattern of slackening has been evident in the developed market economies as well as in the centrally planned economies. In the developing market economies, too, the rate of expansion slowed down in the second half of the nineteen fifties; but thereafter it appears to have remained virtually unchanged, though at a level far lower than that reached in the economically advanced countries.

This slowing down of the rate of increase in world trade is, of course, by no means surprising. In the first half of the nineteen fifties, large increases in exports were sparked by the Korean hostilities. A particularly important part in shaping the trends during this period was played by the sharp increases in prices, which were high in relation to 1950 even after the boom was well past its peak. But there was a substantial shift in price trends in the latter part of the nineteen fifties—indeed, as is indicated later, there was a sharp reversal in the case of the developing countries—which contributed to the slowing down of the rate of increase in export value. There is also the additional factor that in the early post-war years much of the world was still recovering from the enormous destruction brought about by the Second World War. The level of world trade, as well as of the world economic activity, with which it is intimately linked, was still rather low. In such a context, even a modest absolute expansion signalled a comparatively high percentage rate of increase. But with the level of trade itself rising rapidly, even a larger absolute expansion—unless the expansion were unusually large—was bound to reflect a smaller percentage rate of increase.

It must not be concluded, however, that the expansion of world trade will continue to slacken indefinitely. If vigorous policies are pursued to accelerate the pace of economic growth and concur-

rently to dismantle trade barriers, there is little doubt that world trade could expand at a higher rate in the remainder of the nineteen sixties than it did during the period 1960-1962. In a sense, then, the recent slackening in the pace of world trade is a reminder that changing circumstances need to be matched by changing policies.

From the standpoint of the need for appropriate policies, the issue that has come most to the fore is the fact that not all parts of the world have fared equally well in the post-war expansion of trade. The data assembled in table 1-1 indicate that between 1950 and 1962, while the value of exports from the developed market economies rose by about 150 per cent and of those from the centrally planned economies by about 250 per cent, the value of exports from the developing countries increased by a mere 50 per cent. Exports from the developing countries expanded at an annual average rate which was not even half as large as that of the developed market economies or not even one-third as large as that of the centrally planned economies. Given these disparate rates of expansion, the developed market economies which already accounted for as much as three-fifths of total world exports in 1950 increased their share in the total still further to two-thirds in 1962.<sup>4</sup> The centrally planned economies, too, made significant gains; their share in world exports rose steadily from 8 to 13 per cent during the twelve-year period reviewed here. But so small was the expansion of exports from the developing countries that their share in world exports declined steadily from nearly one-third in 1950 to just over one-fourth in 1955 and to only slightly more than one-fifth in 1962.

<sup>4</sup> It may be noted that among the developed market economies there is a group of primary exporting countries consisting of Australia, New Zealand and the Republic of South Africa whose share in world exports actually declined from 4 per cent in 1950 to 3 per cent in 1962. In some respects, the experience of these three countries in export trade has been akin to that of the large number of developing economies.

The divergent experience of different country groups is compounded of their dissimilar trends in the two components, the quantum and unit value, from which the trends in the value of trade are derived. Unfortunately, the quantum and unit value data for the centrally planned economies are not available. However, since the market economies, developed and developing, account for nearly nine-tenths of world trade, their experience reflected in the data shown in table 1-2 may be taken as a close approximation of the experience of the world as a whole.<sup>5</sup>

Clearly, the increases in quantum have been a far more profound influence in shaping the pattern of value of exports than have changes in unit value. The total value of exports of market economies more than doubled between 1950 and 1962, largely as a result of the near doubling of the export quantum; the unit value of their exports increased by just over one-tenth during this period. The developed market economies, by virtue of their large share in the total trade, were unquestionably the dominant factor in forging these trends. For the developed economies as a group, an increase in unit value of 19 per cent reinforced an increase in quantum of 112 per cent to bring about a 151 per cent expansion in the value of exports between 1950 and 1962.<sup>6</sup>

<sup>5</sup> The following indices of value of exports culled from tables 1-1 and 1-2 demonstrate that the change in the total for market economies provides a fairly close approximation of that in the world total:

	<i>Index, 1962</i>		
	1950 = 100	1955 = 100	1960 = 100
World .....	228	152	110
Market economies .....	216	148	109

<sup>6</sup> However, the primary exporting members of this group—Australia, New Zealand and the Republic of South Africa—suffered a very sharp decline in their unit value of exports.

On the other hand, not only was a much smaller increase recorded in the export quantum of the developing countries during this period—only 57 per cent as against 112 per cent recorded by the developed countries—but the unit value of their exports moved in just the opposite direction. Thus, in 1962, the unit value of the goods exported by the developing countries was 4 per cent lower than in 1950, and in relation to 1955 it was lower by as much as 11 per cent. This persistent decline in the unit value of the goods exported by the developing countries nullified to an extent the expansion in the quantum of their exports.<sup>7</sup>

As is only to be expected, world imports during the period 1950-1962 followed a pattern similar to that of world exports. Table 1-3 summarizes the trends in the value of imports on a c.i.f. basis. It should be noted that for the centrally planned economies the available data cover a somewhat shorter period—namely, 1951 to 1962—but the difference is not so significant as to affect broad conclusions. For the period as a whole, the value of imports rose on the average by 7.6 per cent per annum in the developed market economies and by 5 per cent per annum in the developing countries. But within the period, there was a marked tendency in both groups of countries for the rate of expansion to slacken. The slackening was particularly sharp in the developing countries in the early part of the nineteen sixties, owing to the large curtailment of imports in many of these countries in the face of payments difficulties. The pattern of import expansion in the centrally planned economies, however, was rather

<sup>7</sup> The reasons for the slow expansion of the export quantum of the developing countries and for the decline in their export unit value are discussed in the section of this chapter entitled "The composition of trade".

Table 1-2. Market Economies: Indices of Value, Quantum and Unit Value of Exports and Imports, 1962<sup>a</sup>

<i>Item and trading country group</i>	<i>Value</i>			<i>Quantum</i>			<i>Unit value</i>		
	1950 =100	1955 =100	1960 =100	1950 =100	1955 =100	1960 =100	1950 =100	1955 =100	1960 =100
<i>Exports</i>									
Total market economies .....	216	148	109	193	147	111	113	100	99
Developed market economies .....	251	158	111	212	150	110	119	104	101
Developing market economies .....	150	122	106	157	137	111	96	89	95
<i>Imports</i>									
Total market economies .....	222	147	111	206	153	113	108	96	98
Developed market economies .....	240	154	113	221	162	115	108	95	98
Developing market economies .....	179	128	104	167	130	107	108	99	98

Source: See table 1-1.

<sup>a</sup> Exports, f.o.b.; imports c.i.f. For country coverage, see foot-note a to table 1-1.

Table 1-3. World: Annual Rates of Growth of Value of Imports,  
by Importing Country Group, 1950-1962<sup>a</sup>  
(Percentage)

Importing country group	1950-1962	1950-1955	1955-1960	1960-1962
Developed market economies .....	7.6	9.3	6.4	6.2
Developing market economies .....	5.0	6.9	4.2	2.1
Centrally planned economies .....	9.7 <sup>b</sup>	9.6 <sup>c</sup>	11.8	5.0

Source: See table 1-1.

<sup>a</sup> C.i.f. values. For country coverage, see foot-note a to table 1-1.

<sup>b</sup> 1951-1962.

<sup>c</sup> 1951-1955.

different. Not only was their average annual rate of expansion, 9.7 per cent, for the period as a whole higher than that in the market economies, but it accelerated from 9.6 per cent in the first half of the nineteen fifties to 11.8 per cent in the second half of the decade. During the period 1960-1962, the rate did decline to 5 per cent per annum. This decline reflects in part the contraction in the imports of mainland China. In the Soviet Union, the annual rate of increase in imports (f.o.b. values) during this sub-period amounted to 7.1 per cent, as against 13 per cent during 1955-1960.

For the centrally planned economies, information on changes in the quantum and unit value of imports is not available. In the market economies, as in the case of their exports, the increase in quantum of imports was by far the major factor responsible for the expansion in the total value of imports (see table 1-2). In both the developed and developing market economies, the unit value of imports rose by less than one-tenth from 1950 to 1962. The large difference in the percentage increase in the value of imports of these two groups of countries was therefore entirely the result of the difference in the rates of expansion of their import quanta.

While some broad similarities in the patterns of imports and exports are only to be expected, it must be emphasized that in the developing countries the trends in imports have, however, diverged significantly in a number of ways from the trends in exports. Indeed, it is this divergence which provides a clue to the unfavourable experience of these countries in world trade. It may be recalled that from 1950 to 1962 the unit value of exports of the developing countries dropped by about 4 per cent, while the unit value of their imports increased by 8 per cent. This implies that their terms of trade—that is, the ratio of the unit value of exports to the unit value of imports—deteriorated by about 12 per cent during this period. The largest decline occurred in Latin America, followed by Africa, the Far East and West Asia—in that order (see table 1-4). In marked contrast, as is implicit in the calculations shown in table 1-2, the terms of trade of the developed market economies improved by 11 per cent during the same span of time. If the primary exporting members of this group—Australia, New Zealand and the Republic of South Africa—whose terms of trade worsened heavily, are excluded, the improvement for the developed market economies appears to have been about 14 per cent.

Table 1-4. Developing Market Economies: Indicators of Expansion of Trade, 1950-1962<sup>a</sup>

Trading country group	Index, 1962 (1950 = 100)							Trade balance as percentage of exports <sup>c</sup>		
	Value		Quantum		Unit value		Terms of trade <sup>b</sup>	1950	1955	1962
	Exports	Imports	Exports	Imports	Exports	Imports				
Developing market economies..	150	179	157	167	96	108	88	10	—3	—8
Latin American republics...	135	156	153	142	88	110	79	17	6	4
Africa .....	182	181	176	158	103	115	90	—13	—21	—12
Far East .....	117	182	125	179	94	102	92	13	—7	—35
West Asia .....	266	245	261	227	102	108	95	22	26	29

Source: See table 1-1.

<sup>a</sup> Exports, f.o.b.; imports, c.i.f.

<sup>b</sup> Unit value of exports divided by unit value of imports.

<sup>c</sup> No sign indicates surplus; minus sign indicates deficit.



The opposite changes in the terms of trade of the developing and developed market economies stem essentially from the same set of factors. The trade flows of these two groups of countries are so interrelated that the factors which have proved unfavourable to one group have turned out to be favourable for the other. The underlying reasoning can be illustrated with the help of the data shown in table 1-5.<sup>8</sup> Thus, between 1950 and 1961, the over-all terms of trade of the developing countries worsened by 10 per cent. This worsening in the over-all terms of trade was contributed entirely by the 14 per cent deterioration in the terms of trade of these countries with their major trading partners, the developed market economies, largely because of the increase in the unit value of imports from these trading partners.<sup>9</sup> If exports of fuels from the developing countries are excluded, the deterioration in their terms of trade with the developed market economies appears to have been of the order of 17 per cent. In the final analysis, as is discussed in greater detail in the section below referred to, the worsening of the terms of trade of the developing countries has resulted from the fact that these countries export mainly primary commodities, whose prices have been sagging, but import large amounts of manufactured goods, whose prices have been edging up. There is, in other words, a close relationship between the deterioration in the terms of trade of the developing countries and the 26 per cent decline during the period 1950-1961 in the ratio of the prices of primary commodities to the prices of manufactured goods entering international trade. Of course, the terms of trade of the developing countries deteriorated less than the price ratio of these two groups of items since these countries import primary commodities as well as manufactures and export some manufactures in addition to primary commodities.<sup>10</sup> It follows as a corollary that the de-

<sup>8</sup> Although the data in table 1-5 extend only up to 1961, when the deterioration in the terms of trade of the developing countries in relation to 1950 was a little less than it was in 1962, the difference is too small to affect the tenor of the argument.

<sup>9</sup> The unit value indices of the trade of the developing countries with the centrally planned economies are not available separately. It is possible that the unit values of this trade changed somewhat differently from the unit values of the over-all trade of the developing countries. But since the trade of the developing countries with the centrally planned economies constitutes only a small part of their over-all trade, the different changes in the unit value of trade with the latter group, even if they did take place, could not have affected their over-all terms of trade to any significant extent. Thus, it appears that the difference between the 10 per cent decline in the over-all terms of trade of the developing countries and the 14 per cent decline in their terms of trade with the developed market economies probably arises in the main from the differences in the composition of their over-all trade and the composition of their trade with the developed market economies, particularly on the import side.

<sup>10</sup> It should also be noted that the data for primary commodities are based on price quotations and those for manu-

Table 1-5. Selected Unit Value and Price Indices of International Trade, 1961<sup>a</sup>

Item	Index, 1961 (1950 = 100)
<i>World trade of developing market economies</i>	
Unit value of exports .....	98
Unit value of imports .....	109
Terms of trade .....	90
<i>Trade of developing market economies with developed market economies</i>	
Unit value of exports .....	98
Unit value of imports <sup>b</sup> .....	113
Terms of trade .....	86
Unit value of exports, excluding fuels .....	95
Terms of trade, excluding exports of fuels ..	83
<i>World exports<sup>c</sup></i>	
Prices of primary commodities <sup>d</sup> .....	93
Prices of manufactured goods <sup>e</sup> .....	126
Ratio of prices of primary commodities to prices of manufactured goods .....	74

Source: See table 1-1 and Statistical Office of the United Nations, *Monthly Bulletin of Statistics*.

<sup>a</sup> Exports, f.o.b.; imports, c.i.f. Terms of trade refer to unit value of exports divided by unit value of imports. For country coverage, see foot-note *a* to table 1-1.

<sup>b</sup> Unit value of exports from developed market economies to developing market economies, adjusted to conform to c.i.f. values.

<sup>c</sup> Excluding centrally planned economies.

<sup>d</sup> Based on price quotations.

<sup>e</sup> Unit value index for aggregate exports of manufactured goods (Standard International Trade Classification (SITC) sections 5-8).

veloped market economies which export in the main manufactured goods, while importing large amounts of primary commodities, have improved their terms of trade by virtue of the same disparate price trends.

The deterioration in the terms of trade of the developing countries and the sluggish expansion of their export quantum have occurred at a time when their need for imported supplies in order to speed up the pace of their economic development has increased sharply. Thus, the value of imports of the developing countries as a group has been rising faster than the value of their exports. From 1950 to 1962, as is evident from table 1-4, this tendency was most striking in the Far East, the region which recorded only a 25 per cent increase in export quantum, far less than the corresponding increase in import quantum, and which suffered at the same time a decline of 8 per cent in the terms of trade. The tendency was

factured goods on the unit value of internationally traded manufactured items. Price quotations usually show a greater change than do unit values. Therefore, the 26 per cent decline in the ratio of prices of the two groups of items cited in the text probably exaggerates somewhat the extent of the decline.

also quite marked in Latin America despite a larger increase in export quantum than in import quantum; in other words, in Latin America, the somewhat favourable influence exerted by the relative changes in export and import quanta was more than offset by the severe deterioration in the terms of trade. Only in West Asia, which includes a number of countries that are major exporters of petroleum, an item in vigorous demand abroad, did the value of exports rise more than the value of imports despite some worsening of the terms of trade.

As a consequence of the divergent increases in exports and imports, the trade balance of the devel-

oping countries has steadily worsened. In 1950, the developing countries enjoyed a surplus of exports (f.o.b.) over imports (c.i.f.) to the extent of \$1.8 billion; this turned into a deficit of \$0.6 billion in 1955; and in 1962, the deficit mounted to \$2.3 billion. Put differently, the trade surplus amounting to nearly 10 per cent of exports in 1950 gave place to a deficit equalling 8 per cent of exports in 1962. It can be seen from table 1-4 that, among the developing countries, by far the largest decline in trade balance was recorded by the Far East. Only West Asia, by virtue of its dynamic petroleum exports, improved its merchandise trade balance during the twelve-year period under review.

### The direction of trade

The discussion in the preceding section has dealt only with the expansion of world trade by broad groups of countries. However, in order to gain proper perspective, it is also necessary to examine the expansion of trade flows between these groups of countries. It need hardly be stressed that an examination of the trends in these trade flows is of particular interest from the viewpoint of the developing countries, which are increasingly in need of new market opportunities for their export products.<sup>11</sup>

It is evident from table 1-6 that world exports to different parts of the world expanded at significantly different rates during the period 1950-1962. By far the highest rate of expansion, 11 per cent per year, was recorded by world exports to the centrally planned economies, the corresponding increases in world exports to the developed and the developing market economies being 7.2 per cent and

5.1 per cent, respectively. By the yardstick of rates of growth, the centrally planned economies proved to be the most dynamic destination for the exports of both groups of market economies. For the exports of these centrally planned economies, the most dynamic destination was provided by the developing countries; the exports of the former country group to the latter increased at an annual rate of as much as 15 per cent. On the other hand, the developing countries appear to have been rather a stagnant market for the exports of countries within their own group; the intra-trade of the developing countries increased by only 1.8 per cent per year from 1950 to 1962. By contrast, the intra-trade of both the centrally planned economies and the developed market economies expanded at significantly high rates—11.4 and 8.6 per cent per year, respectively.

The significantly different rates at which world exports to different parts of the world expanded during the period 1950-1962 brought about important alterations in the relative shares of various markets for these exports. Thus, as may be seen from

Table 1-6. World: Annual Rates of Growth of Value of Exports, by Origin and Destination, 1950-1962<sup>a</sup>  
(Percentage)

Exporting country group	World <sup>b</sup>	Importing country group		
		Developed market economies	Developing market economies	Centrally planned economies
World .....	7.1	7.2	5.1	11.0
Developed market economies .....	8.0	8.6	5.8	11.3
Developing market economies .....	3.4	3.8	1.8	8.5
Centrally planned economies .....	11.1	8.2	14.9	11.4

Source: See table 1-1.

<sup>a</sup> See foot-note a to table 1-1.

<sup>b</sup> Including exports whose destination cannot be allocated.

table 1-7, the centrally planned economies absorbed 13 per cent of world exports in 1962 as against 8 per cent in 1950. The counterpart of this shift was a decline in the share of world exports to the developing countries, from 27 to 21 per cent during this period. World exports to the developed market economies, on the other hand, continued to represent about 65 per cent of the world total in 1962 as in 1950.

For the developing countries, a major conclusion that emerges from table 1-7 is that the share of their exports declined not only in world markets as a whole—from 32 per cent in 1950 to 21 per cent in 1962—but in the markets of all three groups of countries, including their own. Thus, of the world exports to the developed market economies in 1950, about one-third was contributed by the developing countries, but in 1962 this ratio declined to less than one-fourth.<sup>12</sup> During the same period, the share of exports from the developing countries in world exports to the centrally planned economies diminished from one-eighth to one-thirteenth, and the share of their own intra-trade in world exports to them declined from about one-third to nearly one-fourth.

Exports of both the developed market economies and the centrally planned economies, on the other hand, increased their shares significantly in world markets. In part, these shifts resulted from the increases in the shares of their exports in the markets of the developing countries. Of greater importance,

however, were the increases in the shares of their exports going to the countries within their own respective groups. It is indeed a particularly striking characteristic of the world trade that the developed market economies as well as the centrally planned economies tend to export far more to the countries within their own group than they do to the countries outside the group. With the establishment of regional economic associations in both these groups of countries, the predominance of such intra-trade in the total exports of each of these two groups has increased even further in recent years. This may readily be seen from the data in the table at the top of page 10, which have been adapted from table 1-7 in order to contrast the exports of each group that go to the countries within the group with those that go to the countries outside the group.<sup>13</sup>

Thus, in 1950, the intra-trade of the developed market economies accounted for 41 per cent of total world exports, while the remainder of their exports equalled 19 per cent of the world total. The intra-trade of this group was therefore about twice as large as the remainder of the group's exports. Twelve years later, the intra-trade of the developed market economies represented as much as 48 per cent—close to a half—of total world exports, but the share of the rest of their exports in the world total dropped slightly, to 18 per cent. In 1962, in other words, this intra-trade was roughly two and one-half times as large as the rest of the group's exports. The intra-

<sup>12</sup> These results are calculated from the data in table 1-7 as follows: 1950,  $22 \div 64$ ; 1962,  $15 \div 65$ .

<sup>13</sup> Components do not always add to totals partly because of rounding and partly because totals include exports whose destination cannot be allocated.

Table 1-7. World: Percentage Distribution of Value of Exports, by Origin and Destination, 1950 and 1962<sup>a</sup>

Year and exporting country group	Importing country group			
	World <sup>b</sup>	Developed market economies	Developing market economies	Centrally planned economies
1950	(Total world exports in 1950 = 100)			
World .....	100	64	27	8
Developed market economies ....	60	41	17	2
Developing market economies ...	32	22	8	1
Centrally planned economies ....	8	2	1	5
1962	(Total world exports in 1962 = 100)			
World .....	100	65	21	13
Developed market economies ....	66	48	15	3
Developing market economies ...	21	15	5	1
Centrally planned economies ....	13	2	2	9

Source: See table 1-1.

<sup>a</sup> See foot-note a to table 1-1.

<sup>b</sup> Including exports whose destination cannot be allocated.

Exporting country group	1950		1962	
	Exports to countries within the group	Exports to countries outside the group	Exports to countries within the group	Exports to countries outside the group
	(Percentage of total world exports in 1950 = 100)		(Percentage of total world exports in 1962 = 100)	
Developed market economies .....	41	19	48	18
Developing market economies .....	8	23	5	16
Centrally planned economies .....	5	3	9	4
TOTAL	54	45	62	38

trade of the centrally planned economies, too, broadly followed a similar trend: from less than twice as large as the remainder of the group's exports in 1950, it became more than twice as large in 1962. The shares of the two components of exports of the developing countries, on the other hand, recorded significant declines; but the decline was proportionally greater in the case of their intra-trade, with the result that this segment of their trade did not equal even one-fourth of their total exports in 1962. However, since the weight of the developing countries in world exports is comparatively small, the opposite shift in their intra-trade did little to offset the tendency for world exports to become more compartmentalized. Thus, the net effect of all these changes was that the intra-trade flows of the various

country groups constituted 62 per cent of world exports in 1962, as against 54 per cent in 1950.

Although, as noted earlier, the developed market economies continued to absorb about 65 per cent of world exports during the period reviewed here, there were, nevertheless, significant shifts in the shares absorbed by different sub-groups within the group of the developed market economies (*see* table 1-8). Significant declines took place in the shares of world exports going to North America and the member countries of the European Free Trade Association (EFTA), since world exports to these sub-groups expanded at less than average rates,<sup>14</sup>

<sup>14</sup> The percentage annual rates of growth of world exports to the developed market economies between 1950 and 1962 were as follows: all developed market economies, 7.2; North America, 5.2; EEC, 9.2; EFTA, 6.4; others, 8.0.

Table 1-8. World: Percentage Distribution of Value of Exports, by Destination, 1950, 1955 and 1962<sup>a</sup>

Exporting country group and year	World <sup>b</sup>	Importing country group						
		Developed market economies					Developing market economies	Centrally planned economies
		Total	North America	EEC	EFTA	Other		
<i>World</i>								
1950 .....	100	64	19	19	18	9	27	8
1955 .....	100	65	17	20	17	10	25	10
1962 .....	100	65	15	24	16	10	21	13
<i>Developed market economies</i>								
1950 .....	100	67	16	21	19	11	29	3
1955 .....	100	69	16	22	20	11	28	3
1962 .....	100	73	16	27	19	11	23	4
<i>Developing market economies</i>								
1950 .....	100	69	28	18	17	6	26	3
1955 .....	100	72	25	22	17	8	24	3
1962 .....	100	72	22	24	15	10	22	6
<i>Centrally planned economies</i>								
1950 .....	100	26	5	6	11	4	8	65
1955 .....	100	19	1	6	7	5	7	72
1962 .....	100	18	1	8	6	3	12	67

Source: See table 1-1.

<sup>a</sup> See foot-note a to table 1-1.

<sup>b</sup> Including exports whose destination cannot be allocated.

largely because of the slower rate of economic growth in the United States and the United Kingdom. But these declines were offset by the increases in world exports to the member countries of the European Economic Community (EEC) and the other developed market economies, especially Japan.

The relative share of the developed market economies in the export trade of the centrally planned economies declined during the period 1950-1962, as this export trade shifted towards the developing countries. However, the importance of the developed market economies in the exports of the developing countries—importance that has traditionally been great—increased even further. In 1962, 72 per cent of the exports of the developing countries went to the developed market economies, compared with 69 per cent in 1950.

Among the various regions within the group of developing countries, the dependence of Africa on the markets of the developed countries, though diminishing somewhat since 1950, has remained by

far the heaviest. More than four-fifths of Africa's exports have continued to flow to the developed market economies (*see* table 1-9). While western Europe has remained the most important market for African exports, within that sub-group the relative importance of the EEC countries, with which several African nations maintain close ties, has risen substantially. The importance of the EEC market has also increased significantly for Latin America and West Asia, though for the former region North America, by virtue of its contiguity and hemispheric ties, has continued to be of greater importance. In general, the comparatively slower rate of expansion in economic activity in North America has been instrumental in reducing the importance of this sub-group as a market for exports from the developing countries. The Far East, however, is not so heavily dependent on the markets of the developed countries as are the other regions among the group of developing countries; but the degree of dependence has tended to increase in recent years.

Table 1-9. Developing Market Economies: Percentage Distribution of Value of Exports, by Destination, 1950, 1955 and 1962<sup>a</sup>

Exporting country group	Importing country group							
	World <sup>b</sup>	Developed market economies					Developing market economies	Centrally planned economies
		Total	North America	EEC	EFTA	Other		
<i>Developing market economies</i>								
1950 .....	100	69	28	18	17	6	26	3
1955 .....	100	72	25	22	17	8	24	3
1962 .....	100	72	22	24	15	10	22	6
<i>Latin American republics</i>								
1950 .....	100	79	48	13	15	3	20	1
1955 .....	100	77	46	16	11	5	20	3
1962 .....	100	76	39	20	11	6	17	7
<i>Africa</i>								
1950 .....	100	84	11	39	30	4	13	2
1955 .....	100	84	11	43	26	4	12	3
1962 .....	100	82	9	48	21	5	10	6
<i>Far East</i>								
1950 .....	100	53	20	12	12	8	39	6
1955 .....	100	59	17	13	15	14	37	3
1962 .....	100	57	18	10	14	15	35	7
<i>West Asia</i>								
1950 .....	100	62	8	19	18	17	29	2
1955 .....	100	71	9	33	16	12	25	1
1962 .....	100	71	9	28	17	18	24	3

Source: See table 1-1.

<sup>a</sup> F.o.b. values.

<sup>b</sup> Including exports whose destination cannot be allocated.

While the importance of the centrally planned economies as a market for the goods exported by the developing countries is still small, it is nevertheless increasing rapidly, as may be seen from the fact that the percentage share of the former country group in the exports of the latter doubled between 1950 and 1962 (*see* table 1-9). The principal elements of this shift were the increases in the exports of Latin America and Africa to the centrally planned economies. The increase in the case of Latin America was contributed largely by Cuba's exports to the centrally planned economies, the bulk of which went to the Soviet Union, with mainland China emerging as the second most important customer among this group of countries. The largest part of the increase in Africa's exports to the centrally planned economies

was contributed by the United Arab Republic, while on the destination side more than half of this increase was absorbed by eastern Europe.

It still remains to be discussed why, for example, the export trade of the developing countries has considerably lagged behind that of the other country groups, or why the developing countries, unlike other parts of the world, trade much more with countries outside their group than they do with countries within the group. Virtually all the themes that have emerged from the foregoing analysis are inter-related. Indeed, the forces that have shaped recent trends in trade are rooted in the intrinsic nature of the composition of this trade itself. Thus, it is to an examination of the composition of trade that attention must now be turned.

### The composition of trade

The trends in world trade by broad groups of items are shown in table 1-10. Unfortunately, the data in this table and the subsequent tables cover a comparatively short period. The detailed Standard

International Trade Classification series on which they are based do not extend back to 1950 for many countries; nor are comparable data yet available for 1962. There is no doubt, however, that the broad

Table 1-10. World: Expansion and Distribution of Value of Exports, by Type of Export, 1955-1961<sup>a</sup>

Item and exporting country group	Total	Primary commodities					
		Total	Food-stuffs	Agricultural raw materials and ores	Fuels	Base metals	Manufactures
PERCENTAGE ANNUAL RATE OF GROWTH, 1955-1961							
World .....	6.2	4.2	4.1	3.2	4.7	6.3	8.7
Developed market economies..	7.0	5.2	5.9	5.0	1.4	6.4	8.4
Developing market economies	2.6	2.2	0.7	0.9	5.5	1.8	6.5
Centrally planned economies..	9.1	6.9	7.9	3.0	8.8	11.0	11.9
PERCENTAGE DISTRIBUTION							
<i>World</i>							
1955 .....	100	59	20	19	11	8	41
1961 .....	100	53	18	16	10	9	47
<i>Developed market economies</i>							
1955 .....	100	45	15	14	6	10	55
1961 .....	100	41	15	13	4	9	59
<i>Developing market economies</i>							
1955 .....	100	92	33	30	25	5	8
1961 .....	100	90	29	27	29	5	10
<i>Centrally planned economies</i>							
1955 .....	100	59	17	22	12	9	41
1961 .....	100	52	16	15	11	9	48

Source: See table 1-1.

<sup>a</sup> Composition of trade is as follows: food-stuffs, SITC sections 0 and 1; agricultural raw materials and ores, SITC sections 2 and 4; fuels, SITC section 3; base metals, SITC

divisions 67 and 68, excluding 681; manufactures, SITC sections 5-8, excluding 67 and 68 but including 681. Total includes SITC section 9, not shown separately in the table. For other definitions, *see* foot-note *a* to table 1-1.

conclusions emerging from the analysis based on this short period are quite consistent with the discussion in the preceding sections. This can be readily seen by comparing the calculations set forth in table 1-10 with those pertaining to the sub-period beginning in 1955 in the earlier tables.<sup>15</sup>

Manufactured goods have unquestionably been the most dynamic element of world exports in recent years. During the period 1955-1961, while total exports increased on the average by 6.2 per cent per year, the expansion of manufactured exports amounted to 8.7 per cent per year. The annual increase in world exports of primary commodities during this period was only 4.2 per cent.<sup>16</sup> As a result of these different rates of expansion, the share of manufactured goods in world exports rose from 41 per cent in 1955 to 47 per cent in 1961, while that of primary commodities declined correspondingly from 59 to 53 per cent.

It is obvious that but for the stimulus received by exports of base metals from the rising tempo of industrial activity and for the vigorous expansion of exports of petroleum, which has increasingly tended to replace solid fuels in a multitude of uses, the annual increase in the exports of primary commodities would not have been even 4.2 per cent.<sup>17</sup> Indeed, world exports of agricultural raw materials and ores increased at an annual rate of only 3.2 per cent.

The stagnation in the exports of primary products has been even more acute in the developing countries. Their exports of food-stuffs and raw materials did not increase by even one per cent per year, while world exports of these two merchandise groups increased by 4.1 and 3.2 per cent, respectively. The base metals exported by the developing countries,

<sup>15</sup> The conclusions, moreover, are also in accord with those put forward in a number of other United Nations studies based on earlier systems of trade classification. See, in particular, "Commodity trade and policies in the post-war period" in United Nations, *World Economic Survey, 1958* (Sales No.: 59.II.C.1).

<sup>16</sup> Primary commodities referred to in the present discussion also include processed food-stuffs and base metals. The value added in processing food-stuffs is often quite small, and even after processing they remain usually akin to primary commodities. As for base metals, which serve as intermediate goods in a wide range of uses, the pattern of demand is generally similar to that for industrial raw materials. For details on items covered, see foot-note a to table 1-10.

<sup>17</sup> It is not possible to provide data for components of fuels separately in table 1-10. But all available evidence points unmistakably to the fact that the use of liquid fuels has been growing dramatically, while the world demand for solid fuels has stagnated. Since a substantial proportion of exports of fuels from the developed market economies consists of coal, the expansion in the fuel exports of this country group amounted to only 1.4 per cent per year, a rate much smaller than that recorded by other groups of countries.

too, expanded at a very low annual rate—only 1.8 per cent as against 6.3 per cent for the world as a whole. It may be seen from table 1-11 that the Far East and Latin America have been the most adversely affected developing regions with regard to the growth of trade in primary commodities. The exceptionally low rate of increase in the exports of primary commodities from the Far East was largely the reflection of the very unfavourable experience of jute, cotton and rubber exports, while in Latin America the adverse developments in the exports of coffee and wool were the principal causal factor.

A number of factors have contributed to the tendency for exports of food-stuffs and raw materials, especially from the developing countries, to expand only sluggishly. For example, the demand for food-stuffs has followed the well-known historical pattern of consumption: while the demand for food has increased with the rising levels of per capita incomes, the increase in demand has tended to be less than proportionate to the rise in incomes. In the economically advanced countries, in fact, demand for staple foods has frequently stagnated or even declined. Raw materials, for their part, have been particularly hard hit by the growing use of synthetics; cotton, wool, rubber and leather are the prominent examples of primary commodities which are facing rapidly growing competition from synthetic products. Furthermore, technological developments have increasingly resulted in economies of raw material use. Indeed, in a wide range of industries, the ratio of input to output has tended to decline. Technological advance has also favoured the use of one product against the other; for example, the growing use of aluminium—the bulk of which is produced in the advanced countries—at the expense of other metals has inhibited exports of a number of these other metals from the developing countries.<sup>18</sup>

The exports of primary products from the developing countries have lagged behind total exports of such commodities partly owing to technological factors mentioned above and partly also because of certain economic policies pursued in the developed countries. Often these developed countries have favoured the expansion of their own primary activities behind protective walls through the imposition of tariffs and quantitative restrictions. Some of these countries have also levied internal fiscal charges which have tended to restrain the consumption of a number of commodities imported largely from the developing countries; among the items so affected by fiscal duties have been sugar and the beverage crops.<sup>19</sup>

<sup>18</sup> For a more detailed discussion, see "Commodity trade and policies in the post-war period", op. cit., chapter 1.

<sup>19</sup> See chapter 5 below.

Table 1-11. Developing Market Economies: Expansion and Distribution of Value of Exports, by Type of Export, 1955-1961<sup>a</sup>

Item and exporting country group	Total	Primary commodities					Manu- factures
		Total	Food- stuffs	Agri- cultural raw materials and ores	Fuels	Base metals	
PERCENTAGE ANNUAL RATE OF GROWTH, 1955-1961							
Developing market economies...	2.6	2.2	0.7	0.9	5.5	1.8	6.5
Latin American republics...	1.4	1.3	-0.7	2.9	3.8	—	5.6
Africa .....	3.2	3.1	1.2	2.4	51.9	0.9	4.5
Far East .....	1.5	0.3	2.8	-1.7	0.6	7.6	6.3
West Asia .....	6.3	6.0	0.8	-1.5	7.0	—	13.4
PERCENTAGE DISTRIBUTION							
<i>Developing market economies</i>							
1955 .....	100	92	33	30	25	5	8
1961 .....	100	90	29	27	29	5	10
<i>Latin American republics</i>							
1955 .....	100	97	47	19	24	6	3
1961 .....	100	96	42	21	28	6	4
<i>Africa</i>							
1955 .....	100	94	39	41	1	13	6
1961 .....	100	94	35	40	8	11	6
<i>Far East</i>							
1955 .....	100	83	25	47	8	2	17
1961 .....	100	77	27	39	8	3	23
<i>West Asia</i>							
1955 .....	100	96	7	8	82	—	4
1961 .....	100	94	5	5	85	—	6

Source: See table 1-1.

<sup>a</sup> See foot-note a to table 1-10.

Trends in supplies of primary commodities, too, have had an impact. In recent years, the European countries which had suffered heavy damage to their primary production during the war have made a spectacular recovery. Remarkable increases have also taken place in agricultural productivity, largely as a result of the technical advances spearheaded in North America. Thus, it is not only that several of these countries have attained self-sufficiency; they have actually increased their exports of food-stuffs and agricultural raw materials quite substantially. In the developing countries, on the other hand, rapid growth of population and the rising tempo of industrialization have often had a negative effect on the agricultural surpluses available for export. Many of the developing countries have, in fact, become net importers of several agricultural products in recent years.

The precise impact of all these factors has varied from commodity to commodity.<sup>20</sup> Obviously, the balance of demand and supply for each commodity has

been fashioned by its own individual set of circumstances. In most cases, the interaction of forces has been such as to result in a slower expansion in the volume of primary exports and at the same time to a weakening of their prices, thus reinforcing the unfavourable effect on export value. For the developing countries, nine-tenths of whose exports consist of primary commodities, this has meant a rate of growth of value of exports not even half as large as that of the value of total world exports.<sup>21</sup>

It must also be pointed out in this connexion that although, by virtue of their small initial size, exports of manufactured goods from the developing countries did increase at a rate nearly three times as large as the rate of expansion of their primary exports, this has not contributed more than a nominal change in their total export structure; the share of manufactures in the total exports of these countries increased only from 8 to 10 per cent during this period. Indeed, it is only in the Far East that there has

<sup>20</sup> See United Nations, *World Economic Survey, 1962*, part I (Sales No.: 63.II.C.1), chapter 2.

<sup>21</sup> It may be seen from table 1-10 that during 1955-1961, while the value of world exports increased by 6.2 per cent per year, the corresponding increase in the case of the developing countries was only 2.6 per cent per year.



been a significant increase in the share of manufactures in total exports, rising from 17 per cent in 1955 to 23 per cent in 1961; in no other sub-region did the share exceed 6 per cent in 1961 (*see* table 1-11). Also, as is discussed in greater detail elsewhere,<sup>22</sup> manufactured exports of the developing countries have continued to be dominated by a limited range of products—particularly textiles. Undoubtedly, as may be seen from table 1-10, the largest gains in the exports of manufactured goods were made by the developed market economies and the centrally planned economies which recorded rates of increase far surpassing the corresponding rate in the developing countries.

The preponderance of primary commodities in the exports of the developing countries also explains why, unlike other groups of countries, intra-trade plays so little a part in their total trade. These primary exports must perforce find markets in countries where the levels of industrial activity are high. Given the relatively unindustrialized state of their own economies, the developing countries themselves are not in a position to provide markets on a large scale for primary products. It is not at all surprising, therefore, that much of the largest part of their exports has traditionally gone to the developed countries. And it is from these developed countries that they have traditionally obtained a vast range of manufactured goods—especially, products of heavy industry. In recent years, these developed countries have often supplied their increased requirements of food grains and certain raw materials as well. The developed market economies and the centrally planned

economies, for their part, have increasingly tended to import more complex types of industrial goods. Their pattern of import demand, in other words, is such that it has almost by its very nature favoured intra-trade or trade with members of their own respective country groups. Furthermore, as noted in the preceding section, such intra-trade has also been favoured by the policies of regional economic groupings established in recent years.

Since exports from the developing countries have lagged behind those from the developed market economies as well as those from the centrally planned economies in virtually all items, it is easy to see why the share of the former country group in world exports has continued to drop sharply. It is true that, thanks to the rapid expansion of demand for petroleum, the share of the developing countries in world exports of this item has risen in recent years (*see* table 1-12). But petroleum exports are concentrated in a small number of developing countries. Thus, so long as exports of other major items continue to encounter sluggish expansion, even a substantial increase in the rate of growth of petroleum exports will not be able to stem the decline in the share of the developing countries in total world exports. It is evident from table 1-12 that, with the exception of fuels, the developing countries have increasingly become minority suppliers of all broad classes of internationally traded items. The large number of developing countries in Africa, Asia and Latin America derive a preponderant part of their national income from primary production; yet the larger part of world trade in food-stuffs and raw materials is claimed by the developed market economies for whom industry is generally the more im-

<sup>22</sup> *See* the section on "Salient features of exports of manufactures from the developing countries" in chapter 7.

Table 1-12. World: Percentage Shares of Exporting Country Groups in Value of Exports, by Type of Export, 1955 and 1961<sup>a</sup>

Year and exporting country group	Total	Primary commodities					
		Total	Food-stuffs	Agricultural raw materials and ores	Fuels	Base metals	Manufactures
1955							
World .....	100	100	100	100	100	100	100
Developed market economies..	64	49	49	48	32	74	85
Developing market economies	26	40	42	40	57	16	5
Centrally planned economies..	10	10	9	12	11	10	10
1961							
World .....	100	100	100	100	100	100	100
Developed market economies..	67	52	55	54	26	74	83
Developing market economies	21	36	34	35	60	12	4
Centrally planned economies..	12	12	11	12	14	14	12

Source: *See* table 1-1.

<sup>a</sup> *See* foot-note a to table 1-1 and foot-note a to table 1-10.

portant mode of activity. At the same time, by virtue of their advanced stage of industrialization, these developed countries have continued to account for more than four-fifths of world trade in manufactures.

Manufactured goods exported by the developing countries amounted to only 4 per cent of world exports of manufactures in 1961, somewhat less than in 1955.

### Implications for development problems

The failure of the developing countries to participate adequately in the expansion of world trade in recent years poses a threat to their economic development. Indeed, so close are the links between their foreign trade and their economic development that if these countries were to continue to encounter unfavourable experiences, as they have in recent years, their economic expansion would doubtless be jeopardized.

It is well known that many developing countries obtain a large part of their national income from production for export. In such countries, developments in the export sector impinge more or less directly on the levels of economic activity. If the demand for their exports expands sluggishly, there is little inducement to invest, and economic activity settles down at a low level; but if external demand increases vigorously, the growth of national output and income is stimulated. Instances of close association between the performance of the export sector and the development of the economy as a whole are readily available in the economic record of the developing countries.<sup>23</sup> Small wonder, then, that the recent trends in the export trade of these countries are a matter of concern not only to them, but also to the world community as a whole which has collectively resolved to give high priority to their economic development—a resolve reflected in the designation of the nineteen sixties as the United Nations Development Decade and in numerous other actions of the United Nations, including the convening of the Conference on Trade and Development.

It is, of course, true that the process of economic growth can yield its own momentum or can be given impetus through resolute government action. In recent years, Governments in the developing countries have, through national plans or programmes of economic development, sought to achieve this very objective. But the endeavours of these Governments have demonstrated even more vividly that foreign trade has lost none of its crucial importance for the developing countries. Whether exports are a large or small part of their total economic activity, the rate of capital formation for accelerating economic growth of these countries has continued to depend

heavily on increased imports of machinery and other essential capital goods. There are, no doubt, a few developing countries which have been successful in establishing capital goods industries; but even in these countries, demand for such goods has far outstripped domestic supply, and the need for imports has, consequently, been sharply on the increase.

As already indicated, with their imports rising faster than their exports, the developing countries have been faced with a persistent deterioration in their trade balance. It is well known that the balance on services account of these countries has traditionally been in deficit, for these under-developed economies must of necessity depend heavily on the merchant fleet and insurance concerns of the advanced countries to meet the transport and insurance requirements of their foreign trade and make payments at the same time for the servicing of their external debts. On both the merchandise and the service accounts, therefore, the developing countries have been encountering mounting payments deficits in recent years. In the earlier post-war years, many developing countries withdrew large sums from their accumulated holdings of foreign currencies to pay for these deficits. But, generally speaking, the external reserves of these countries have by now been depleted to levels which no longer permit further withdrawals. Indeed, in more recent years, the brunt of the burden of meeting external deficits in these countries has increasingly come to be borne by foreign assistance and capital.

There is doubtless scope for improving the services' balance of the developing countries. In this connexion, several United Nations studies have explored at some length such problems as debt servicing, ocean and air freight rates, insurance costs and tourism.<sup>24</sup> The developing countries may be expected to make gains in all these directions as their economic structures become diversified. But as the discussion in chapter 3 shows clearly, the requirements of these countries are so great that external imbalance is likely to be a persistent problem for them for quite some time.

<sup>23</sup> See, for example, "Commodity trade and policies in the post-war period", *op. cit.*, page 54.

<sup>24</sup> See, for example, the papers submitted to the United Nations Conference on Trade and Development under the agenda item "Improvement of the invisible trade of developing countries".

The availability of foreign funds for economic development has, indeed, been an eloquent expression of international co-operation in recent years. These funds have helped to meet external deficits and have made substantial additions to resources for economic development. One of the important issues before the world community is unquestionably the need for enlarging the flow of funds to the developing countries. It may be recalled that the United Nations General Assembly, through its resolution 1522 (XV), urged that the flow of economic assistance and capital to the developing countries be increased so as to amount to one per cent of the combined national incomes of the developed countries. An additional and equally important aspect of the problem is the need to co-ordinate trade and aid policies. For example, a significant part of the annual flow of funds to the developing countries has represented merely an offset to the loss suffered by them through the worsening of their terms of trade.<sup>25</sup> In many countries, moreover, the annual inflow of funds has shown sharp fluctuations, which have hampered the implementation of development plans that commonly cover a four or five-year period. The rising burden of debt service payments, for its part, has indicated the need for a reappraisal of the terms on which assistance is made available. These and other related issues are discussed in chapter 8.

While an enlarged flow of foreign assistance and capital is of great importance for accelerating the pace of economic development, there is no question that the developing countries must, in the final analysis, reach the stage of self-sustained economic growth. Indeed, a basic purpose of foreign aid is to help achieve the objective as early as possible. It need hardly be stressed, however, that the attainment of self-sustained growth in the developing countries hinges upon a favourable turn in their merchandise exports, which constitute the main source of their foreign exchange earnings.

In many ways, the developing countries must themselves make vigorous efforts to expand and diversify their exports. They must constantly strive to develop exports of items for which world demand is increasing. Determined action must also be taken by the developing countries to increase their intra-trade, which currently accounts for a relatively small part of their total trade. There is undoubtedly a great deal of scope for mutual co-operation in this field.

Notwithstanding the increase in the intra-trade of the developing countries that might take place, recent

trends portend unmistakably that the bulk of the exports from the developing countries would continue to seek outlets elsewhere. Thus, it is the expansion of these outside markets which constitutes the larger theme. One promising avenue in this connexion appears to be the expansion of trade with the centrally planned economies. As indicated earlier, the share of the centrally planned economies in the exports of the developing countries, though still rather small, has been growing rapidly. There is little doubt, however, that by far the largest part of these exports would continue to be absorbed by the developed market economies. In either case, the point is that the efforts by the developing countries alone will not prove fruitful; they need to be accompanied by active co-operation on the part of the economically advanced countries.

A major issue with regard to the expansion of markets for the exports of the developing countries concerns primary commodities which have traditionally loomed large in these exports. The problems of primary commodity trade are complex. Their solutions, be they the removal of existing obstacles, or the stabilization of international markets, or the initiation of an appropriate compensatory financing scheme for offsetting fluctuations in export proceeds, require careful and sustained international action. Only in such an environment, it is pointed out in some of the chapters that follow, would this traditional source of foreign exchange yield benefits for accelerating economic development.<sup>26</sup>

A new international trade policy must, however, go beyond trade in primary commodities. In recent years, a number of developing countries have increasingly become able to produce and export manufactured goods. But their attempts to diversify their export trade through the inclusion of manufactured goods have been frequently hindered by various tariff and non-tariff barriers imposed in the developed countries. There is a growing conviction that, unless appropriate measures are formulated to dismantle these barriers, the industrial growth of the developing countries will not be sufficiently rapid. Chapter 7 devotes a good deal of attention to this important issue.

Clearly, vigorous measures are required on a wide front in order to turn foreign trade into a viable instrument of economic development. Indeed, it is this urgent need for devising appropriate international action that provided the setting for the United Nations Conference on Trade and Development.

<sup>25</sup> For illustrative estimates, see chapter 8.

<sup>26</sup> See, chapters 5, 6 and 9.

## Chapter 2

### A REVIEW OF WORLD TRENDS IN GROSS DOMESTIC PRODUCT

This chapter presents a brief review of the trends in gross domestic product, absolute and per capita, between 1950 and 1960 in the developed and the developing market economies.<sup>1</sup> In order to provide a broad perspective to the efforts which will be required of the international community if the aims of the United Nations Development Decade are to be achieved, it is obviously important to make a quantitative assessment of the past trends in output and population growth. Such an assessment will provide a firmer basis for considering the changes in international and national policies relating to aid

<sup>1</sup> It has not been possible to include the centrally planned economies in the present review because their gross product data are conceptually different from those of the market economies.

and trade that are required for fulfilling the objectives of the Development Decade.

In the following three sections of this chapter, the trends in absolute and per capita gross domestic product are first reviewed on a regional basis and then on an individual country basis. The final section examines some of the implications of the Development Decade target in the light of these trends. The analysis in this section serves as the basis for estimating the trade requirements of the developing countries for their accelerated economic growth, a task undertaken in chapter 3. The basic sources of data and the methods of calculating the estimates shown in statistical tables are described in the appendix to the present chapter.

#### Trends in gross domestic product, 1950-1960<sup>2</sup>

The gross domestic product of all market economies, developed and developing, is estimated to have increased from about \$732 billion in 1950 to nearly \$1,090 billion in 1960, valued in prices and exchange rates prevailing in 1960.<sup>3</sup> This represents an annual rate of growth of 4.1 per cent.<sup>4</sup> During the decade under review, the gross domestic product grew at a slightly higher rate in the developing

<sup>2</sup> Estimates of the gross domestic product in terms of 1960 United States dollars have been prepared by the Economic Projections and Programming Centre of the Bureau of General Economic Research and Policies of the United Nations Secretariat. For the sources of basic data and for the methods of calculating these estimates, see the appendix.

<sup>3</sup> It must be noted that nominal exchange rates do not necessarily provide an ideal measure for comparing purchasing powers of national currencies. However, these exchange rates are the only consistent conversion factors available at the present time for converting national currencies of individual countries on a comparable basis.

<sup>4</sup> Unless otherwise specified, the rates of growth cited in this paper are average annual compound rates, derived from a comparison of the two relevant terminal years. Such rates may, of course, be influenced by cyclical and random factors operating in the terminal years. Calculations show, however, that in general the conclusions would not be significantly altered by the use of other methods of estimating rates of growth, such as those obtained from growth curves, fitted to time series data, which are less affected by cyclical and random elements. Thus, for the developing countries, the

market economies as a whole than in the developed market economies as a whole. The rate of growth of the former country group was 4.4 per cent per year, while that of the latter country group was 4.0 per cent per year.<sup>4</sup> This disparity in the growth rates of the two groups of countries is largely accounted for by the slow growth of output in North America and in most of the European Free Trade Association (EFTA) countries. The other developed regions registered more rapid growth; their rate of growth exceeded the average for the market economies as a whole. This was particularly true for Japan and some of the European Economic Community (EEC) countries. By contrast, output in major developing regions grew at rates closer to the global average; in West Asia and the developing region listed as "other",<sup>5</sup> however, output expanded

trend rate of growth in the nineteen fifties is the same as the average compound rate, or 4.4 per cent per year. However, for the developed market economies, the trend rate of growth in this period is 3.7 per cent per year, as compared to 4.0 per cent per year for the average compound rate, the difference reflecting the variability in annual changes in growth in the course of the decade.

<sup>5</sup> This region consists mainly of the countries and the dependent territories in the Caribbean.

at rates significantly above the average<sup>6</sup> (see table 2-1).

It may be noted that the growth of output in the nineteen fifties was not completely free from cyclical fluctuations. Fluctuations in the growth rates from year to year were more pronounced in the developed market economies, though it was only between 1957 and 1958 that the gross domestic product of this country group registered a decline, albeit slight, largely as a result of the recession in the United States.

It should also be noted that there was a tendency towards deceleration in the rate of growth of gross domestic product over the course of the decade, both in the developed and the developing market economies. In the developed market economies, the annual rate of growth of gross domestic product dropped from 4.7 per cent in the first half of the

<sup>6</sup> It should be noted that these two regions include petroleum producing countries whose petroleum exports rose rapidly during the decade, thus helping to sustain high rates of growth of gross domestic product.

nineteen fifties to 3.3 per cent in the second half of the decade. On the other hand, the developing market economies had a less pronounced fall in the annual rate of growth, which dropped from 4.6 per cent during the first half of the decade to 4.3 per cent during the latter half.

The distribution of the gross domestic product between the developed and the developing market economies changed little during the period under review. From 1950 to 1960, the developed market economies' share of total output declined only slightly, from 84.9 per cent to 84.4 per cent. This decline reflected a significant drop in the share of North America from 53.1 to 49.5 per cent and of the EFTA countries from 10.9 to 10.1 per cent; the declines in the shares of these two regions were not completely offset by the considerable increases in the shares of the EEC countries (from 14.3 to 16.6 per cent) and Japan (from 2.2 to 3.6 per cent). The increase in the developing regions' share of total output from 15.1 to 15.6 per cent over the decade was largely accounted for by the increase in the share of the Latin American republics.

### Trends in per capita gross domestic product, 1950-1960<sup>7</sup>

Though, during the decade ending in 1960, the rates of growth of output did not differ significantly between the developed and the developing market

economies, each taken as a group, the trends in the rates of growth of per capita output appear to have been quite different. This is, quite obviously, because the trends in the rates of growth of population of the two groups of countries have been significantly different. Thus, between 1950 and 1960, the popula-

<sup>7</sup> Based upon revised population estimates made available by the Population Branch of the Bureau of Social Affairs of the United Nations Secretariat.

Table 2-1. Gross Domestic Product by Major Regions, 1950, 1955 and 1960<sup>a</sup>

Region	Amount in billions of 1960 dollars			Percentage distribution			Average annual compound rate of growth (percentage)		
	1950	1955	1960	1950	1955	1960	1950-1960	1950-1955	1955-1960
All market economies .....	732.1	920.0	1,089.9	100.0	100.0	100.0	4.1	4.7	3.5
Developed market economies	621.8	782.1	920.1	84.9	85.0	84.4	4.0	4.7	3.3
North America .....	388.5	480.4	539.8	53.1	52.2	49.5	3.3	4.3	2.4
Western Europe .....	199.2	254.8	314.3	27.2	27.7	28.8	4.7	5.0	4.3
EEC .....	104.4	140.8	180.6	14.3	15.3	16.6	5.6	6.2	5.1
EFTA .....	80.1	94.8	110.0	10.9	10.3	10.1	3.2	3.4	3.0
Other western Europe <sup>b</sup> ..	14.7	19.3	23.7	2.0	2.1	2.2	4.9	5.5	4.2
Japan .....	16.1	24.7	39.0	2.2	2.7	3.6	9.3	9.0	9.5
Oceania and South Africa	18.0	22.1	27.0	2.5	2.4	2.5	4.1	4.1	4.1
Developing market economies	110.3	137.9	169.8	15.1	15.0	15.6	4.4	4.6	4.3
Latin American republics..	39.1	49.4	61.4	5.3	5.4	5.6	4.6	4.8	4.5
Africa <sup>c</sup> .....	18.1	22.3	27.0	2.5	2.4	2.5	4.1	4.3	3.9
Far East <sup>d</sup> .....	45.2	55.9	68.3	6.2	6.1	6.3	4.2	4.3	4.1
West Asia <sup>e</sup> .....	6.6	8.7	10.9	0.9	0.9	1.0	5.2	5.6	4.7
Others .....	1.2	1.6	2.2	0.2	0.2	0.2	6.2	5.6	6.8

Source: See appendix to the present chapter.

<sup>a</sup> Details and percentages do not necessarily add to totals, because of rounding.

<sup>b</sup> Including Turkey.

<sup>c</sup> Excluding Republic of South Africa.

<sup>d</sup> Excluding Japan.

<sup>e</sup> Excluding Turkey.

tion of all market economies increased from an estimated 1,622 million to about 1,953 million or at an annual rate of 1.8 per cent. The increase in the population of the developed regions was from 576 million to 653 million or at 1.2 per cent per year and that of the developing regions was from 1,046 million to 1,301 million or at 2.2 per cent per year. Thus, the rate of population growth was roughly twice as high in the developing regions as in the developed regions during the nineteen fifties; as a result, the former group's share in total population rose from 64.5 per cent in 1950 to 66.6 per cent in 1960 (see table 2-2).

Relatively rapid population growth has been a salient feature of all developing regions. Indeed, in no developing region did the annual growth of population fall short of 2 per cent; in the Latin American republics, in fact, it was as high as 2.8 per cent. By contrast, among nearly all the developed regions, population grew at much lower rates—as low as 0.5 per cent in the EFTA area.

The disparate rates of population growth in the developed and the developing regions resulted in a considerable gap between the rates of growth of per capita output in these two groups of market economies (see table 2-3). In the developed market economies as a whole, the average per capita gross domestic product increased from \$1,080 in 1950 to \$1,410 in 1960 or at an annual compound rate of 2.7 per cent. On the other hand, the average per capita gross domestic product of the developing regions increased only from \$105 in 1950 to \$130 in 1960, or at an annual rate of increase of 2.2 per cent. Thus, the gap in the per capita output of these

two groups of market economies widened not only in absolute terms—an understandable phenomenon in view of the large difference in absolute per capita levels of the two groups of countries—but also in relative terms; the per capita output in the developed regions was about ten times as large as that in the developing regions in 1950, but by 1960 it was eleven times as large. If these trends were to continue, it would take nearly thirty-three years for the developing regions to double their per capita output, while the gap in the per capita output of the two groups of countries would obviously be becoming larger.

Among the developed regions, North America, which had the highest per capita output (\$2,718 in 1960), showed the lowest annual rate of growth (1.5 per cent) of per capita output, while Japan, with relatively low per capita output (\$418 in 1960), recorded the highest rate (8.0 per cent). Among the developing regions, the Latin American republics recorded the smallest annual rate of increase of per capita gross domestic product (1.8 per cent), followed by Africa (1.9 per cent), the Far East (2.1 per cent), West Asia (2.7 per cent) and "others" (4.0 per cent).

While the growth of gross domestic product showed a tendency towards deceleration within the decade in most of the developed and the developing regions, the growth of population showed a tendency towards acceleration in both groups, although to a larger extent in the latter. These divergent changes in the growth of gross domestic product and of population resulted in an even larger decline in

Table 2-2. Population by Major Regions, 1950, 1955 and 1960<sup>a</sup>

Region	Number in millions			Percentage distribution			Average annual compound rate of growth (percentage)		
	1950	1955	1960	1950	1955	1960	1950-1960	1950-1955	1955-1960
All market economies <sup>b</sup> .....	1,621.8	1,770.5	1,953.2	100.0	100.0	100.0	1.8	1.7	1.9
Developed market economies.....	575.6	612.7	652.6	35.5	34.5	33.4	1.2	1.2	1.3
North America .....	166.0	181.6	198.6	10.2	10.3	10.2	1.8	1.8	1.7
Western Europe .....	303.9	316.7	332.3	18.7	17.9	17.0	0.9	0.8	1.0
EEC .....	155.2	161.4	169.1	9.6	9.1	8.7	0.9	0.8	1.0
EFTA .....	85.2	86.9	89.5	5.3	4.9	4.6	0.5	0.4	0.6
Other western Europe.....	63.5	68.3	73.7	3.9	3.9	3.8	1.5	1.5	1.5
Japan .....	83.1	89.0	93.2	5.1	5.0	4.8	1.1	1.4	0.9
Oceania and South Africa.....	22.6	25.4	28.5	1.4	1.4	1.5	2.3	2.3	2.3
Developing market economies.....	1,046.2	1,157.8	1,300.6	64.5	65.4	66.6	2.2	2.1	2.4
Latin American republics.....	155.6	178.3	204.9	9.6	10.1	10.5	2.8	2.8	2.8
Africa .....	193.5	214.1	239.3	11.9	12.1	12.3	2.2	2.1	2.3
Far East .....	652.9	715.2	800.5	40.3	40.4	41.0	2.1	1.8	2.3
West Asia .....	40.4	45.9	51.2	2.5	2.6	2.6	2.4	2.7	2.3
Others .....	3.8	4.2	4.7	0.2	0.2	0.2	2.1	2.1	2.1

Source: See appendix.

<sup>a</sup> Details and percentages do not necessarily add to totals, because of rounding.

<sup>b</sup> Territorial coverage is the same as in table 2-1.

Table 2-3. Per Capita Gross Domestic Product by Major Regions, 1950, 1955 and 1960<sup>a</sup>

Region	Amount in 1960 dollars			Average annual compound rate of growth (percentage)		
	1950	1955	1960	1950-1960	1950-1955	1955-1960
All market economies <sup>b</sup> .....	451	520	558	2.1	2.9	1.4
Developed market economies	1,080	1,277	1,410	2.7	3.4	2.0
North America .....	2,340	2,645	2,718	1.5	2.5	0.5
Western Europe .....	655	805	946	3.7	4.2	3.3
EEC .....	672	872	1,068	4.7	5.3	4.1
EFTA .....	941	1,090	1,229	2.7	3.0	2.0
Other western Europe ..	232	282	322	3.3	4.0	2.6
Japan .....	193	278	418	8.0	7.6	8.5
Oceania and South Africa..	800	872	948	1.7	1.8	1.7
Developing market economies	105	119	130	2.2	2.5	1.8
Latin American republics..	252	277	300	1.8	1.9	1.6
Africa .....	93	104	113	1.9	2.2	1.6
Far East .....	69	78	85	2.1	2.4	1.8
West Asia .....	164	189	214	2.7	3.0	2.4
Others .....	319	377	472	4.0	3.4	4.6

Source: See appendix.

<sup>a</sup> Details and percentages do not necessarily add to totals, because of rounding.<sup>b</sup> Territorial coverage is the same as in table 2-1.

the rate of growth of per capita output than in that of total output in most of the regions. In the developed regions as a whole, the annual rate of growth of per capita output declined from 3.4 per

cent in the first half of the decade to 2.0 per cent in the latter half, while the corresponding decline in the developing regions as a whole was from 2.5 per cent to 1.8 per cent.

## Frequency distribution of gross domestic product, absolute and per capita, 1950-1960

The trends observed in the regional aggregates of gross domestic product, population and per capita output conceal the wide diversity in the experiences of individual countries. The growth rates for individual countries show a far greater variation than do the growth rates for geographical regions. An analysis of the pattern of this dispersion will add to the understanding of the past trends. Such a pattern can be conveniently summarized in the form

of frequency distributions of the growth rates of individual countries as shown in tables 2-4, 2-5 and 2-6<sup>8</sup> as well as in charts 2-1, 2-2 and 2-3.

<sup>8</sup> While all individual countries are enumerated separately in the developed group, a number of countries have had to be combined into a single category called "others" in each geographical region of the developing group because of the limitations of data. This fact must be kept in mind in comparing frequency distributions by country.

Table 2-4. Frequency Distribution of Countries by Rates of Growth of Gross Domestic Product between 1950 and 1960<sup>a</sup>

Average annual compound rate of growth (percentage)	Developed countries			Developing countries		
	Number	Percentage distribution of number of countries	Percentage share in 1960 gross domestic product	Number	Percentage distribution of number of countries	Percentage share in 1960 gross domestic product
I. Less than 2.5.....	2	8	0.2	7	16	13.7
II. 2.5 to 3.4.....	7	28	66.4	3	7	8.0
III. 3.5 to 4.4.....	4	16	12.9	10	22	33.2
IV. 4.5 to 5.4.....	6	24	3.9	11	24	14.3
V. 5.5 to 6.4.....	4	16	5.1	7	16	21.1
VI. 6.5 and above.....	2	8	11.5	7	16	9.7
TOTAL	25	100	100.0	45	100	100.0

Source: See appendix.

<sup>a</sup> Details and percentages do not necessarily add to totals, because of rounding.

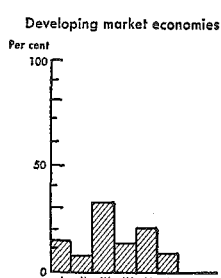
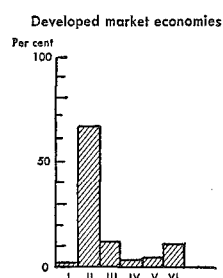
Table 2-5. Frequency Distribution of Countries by Rates of Growth of Population between 1950 and 1960<sup>a</sup>

Average annual compound rate of growth (percentage)	Developed countries			Developing countries		
	Number	Percentage distribution of number of countries	Percentage share in 1960 population	Number	Percentage distribution of number of countries	Percentage share in 1960 population
I. Less than 0.5.....	3	12	9.6	—	—	—
II. 0.5 to 0.9.....	8	32	31.9	—	—	—
III. 1.0 to 1.4.....	7	28	19.4	2	4	0.2
IV. 1.5 to 1.9.....	1	4	27.7	6	13	41.2
V. 2.0 to 2.4.....	4	16	4.4	15	33	44.4
VI. 2.5 to 2.9.....	2	8	7.0	7	16	4.3
VII. 3.0 to 3.4.....	—	—	—	12	27	9.2
VIII. 3.5 and above.....	—	—	—	3	7	0.8
TOTAL	25	100	100.0	45	100	100.0

Source: See appendix.

<sup>a</sup> Details and percentages do not necessarily add to totals, because of rounding.Chart 2-1. Frequency Distribution of Countries by Rates of Growth of Gross Domestic Product between 1950 and 1960<sup>a</sup>

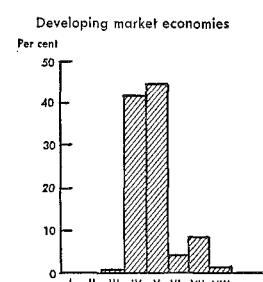
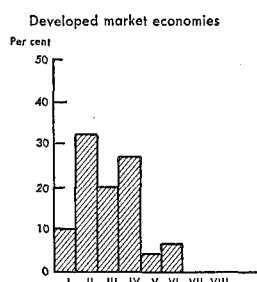
(Gross domestic product shares)



Source: Table 2-4.

<sup>a</sup> For definitions of ranges I-VI, see table 2-4.Chart 2-2. Frequency Distribution of Countries by Rates of Growth of Population between 1950 and 1960<sup>a</sup>

(Population shares)



Source: Table 2-5.

<sup>a</sup> For definitions of ranges I-VIII, see table 2-5.Table 2-6. Frequency Distribution of Countries by Rates of Growth of Per Capita Gross Domestic Product between 1950 and 1960<sup>a</sup>

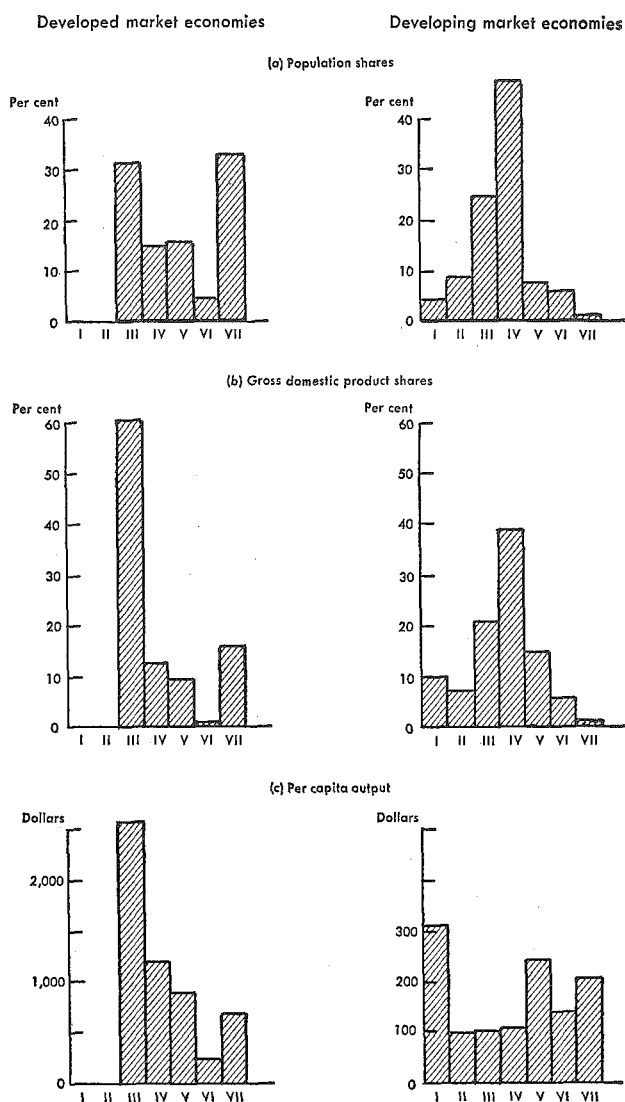
Average annual compound rate of growth (percentage)	Developed countries				Developing countries			
	Number (percentage)	Percentage share in 1960 gross domestic product	Percentage share in 1960 population	1960 level of per capita gross domestic product (dollars)	Number (percentage)	Percentage share in 1960 gross domestic product	Percentage share in 1960 population	1960 level of per capita gross domestic product (dollars)
I. Less than 0.....	—	—	—	—	6 ( 13)	10.2	4.3	310
II. 0 to 0.9.....	—	—	—	—	4 ( 9)	7.0	8.9	102
III. 1.0 to 1.9.....	5 ( 20)	60.8	32.4	2,645	13 ( 29)	20.0	24.6	106
IV. 2.0 to 2.9.....	8 ( 32)	12.5	14.7	1,193	10 ( 22)	39.5	47.2	109
V. 3.0 to 3.9.....	6 ( 24)	9.8	15.9	875	3 ( 7)	15.2	8.1	246
VI. 4.0 to 4.9.....	1 ( 4)	0.9	4.6	278	6 ( 13)	6.5	6.0	143
VII. 5.0 and above.....	5 ( 20)	16.0	32.3	695	3 ( 7)	1.6	1.0	209
TOTAL	25 (100)	100.0	100.0	1,410	45 (100)	100.0	100.0	130

Source: See appendix.

<sup>a</sup> Details and percentages do not necessarily add to totals, because of rounding.



Chart 2-3. Frequency Distribution of Countries by Rates of Growth of Per Capita Gross Domestic Product between 1950 and 1960<sup>a</sup>



Source: Table 2-6.

<sup>a</sup> For definitions of ranges I-VII, see table 2-6.

It was indicated earlier that during the nineteen fifties the average rate of growth of the gross domestic product of the developing countries as a group was somewhat higher than that of the developed countries as a group. However, it is evident from table 2-4 and chart 2-1 that the average rate of growth of the developing countries as a group is not typical of the growth rates of individual countries in that group. In fact, the proportion of countries growing at extremely low rates was much higher among the developing countries than among the developed countries. The frequency distribution of the growth rates among the developing countries is characterized by a large proportion of the countries growing at either relatively low or relatively high

rates. On the other hand, the corresponding distribution among the developed countries is unimodal.

The frequency distribution of population growth rates exhibits a pattern in many respects opposite to that of gross domestic product (see table 2-5 and chart 2-2). The distribution for the developing countries is more concentrated around the group average than is the distribution for the developed countries. About 86 per cent of the population in the developing countries grew at rates between 1.5 and 2.5 per cent per year during the decade. The population growing at rates lower than 1.5 per cent was of a negligible proportion in the total, while about 14 per cent of the population grew at rates higher than 2.5 per cent. By contrast, a relatively large proportion of the population in the developed countries has shown extremely low rates of growth; about 42 per cent of the total population in this group grew at rates lower than 1.0 per cent per year. However, at the same time, about 39 per cent of the population in the developed countries expanded at rates exceeding 1.5 per cent.

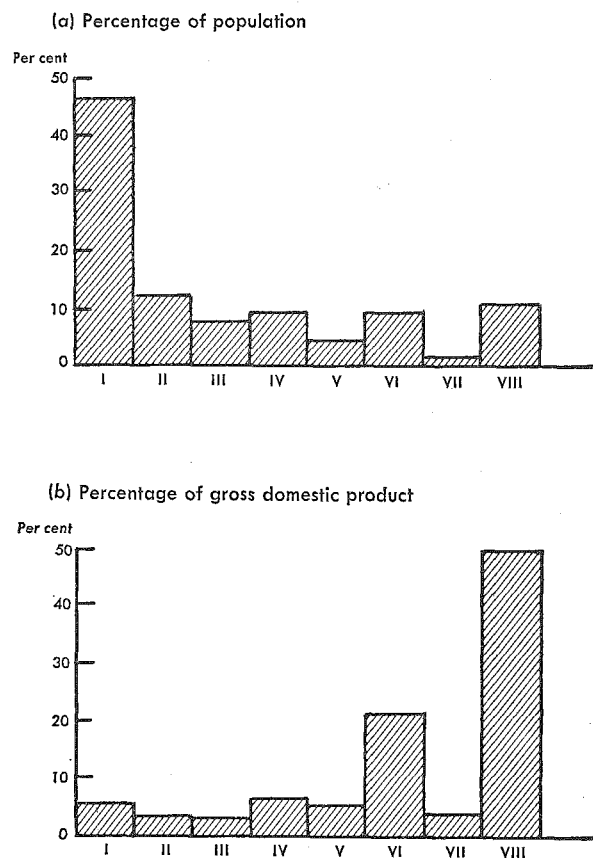
These divergent patterns in the rates of growth of output and population as between the developed and the developing groups tended to accentuate the differences in the rates of growth of per capita output in the two groups of countries. In a substantial number of developing countries, the population pressure was such that the progress made in the volume of output was barely enough to improve the living standard. As shown in table 2-6, for 13 per cent of the population of the developing countries, per capita output either declined or rose at annual rates of less than one per cent. Only 7 per cent of the total population of these countries enjoyed rapid growth of per capita output—that is, at annual rates amounting to over 4 per cent. The frequency distribution of the rates of growth of per capita output in the developing countries shows a tendency towards clustering around the group average whether it is examined in terms of population “shares” or gross domestic product “shares”. On the other hand, the corresponding distribution for the developed countries exhibits no such tendency. For nearly 37 per cent of the population in the developed areas, per capita output grew at rates exceeding 4 per cent per year, but at the same time nearly one-third of their population was concentrated on the relatively low range in growth rates—that is, between one and 2 per cent. None of the developed countries, however, recorded rates of growth of per capita output of less than one per cent. Thus, in this case the distribution shows two distinct peaks at both ends, as shown in chart 2-3. The meaning of this distribution becomes clear by a comparison of the rate of growth of per capita output with its level. In the developed group, there has been a clearly negative correlation

between these two variables (*see* chart 2-3 (c)). In other words, among the developed countries, those with relatively high level of per capita output experienced relatively low rates of growth of per capita output during the period under review. This negative association between the levels and the rates of change in per capita output has resulted in some narrowing of the per capita output gaps among the developed countries over the decade. By contrast, there was no such association among the developing countries. Thus, the existing differences in per capita output among the developing countries tended to be accentuated, and the gap in the per capita output between the developed and the developing regions tended to be widened.

The developments during 1950-1960 have in no way lessened the highly unequal distribution of per capita output among nations. This inequality is clearly indicated in table 2-7 as well as in chart 2-4 which shows the frequency distribution of the market economies by per capita output in 1960. It may be noted that the per capita output was less than \$100 for 46 per cent of the total population of the market economies even as late as 1960; nearly half of the population thus contributed only 7 per cent of the gross domestic product of all market economies. On the other hand, at the top end of the distribution, almost one-half of the total gross domestic product was produced by only 10 per cent of the population; in other words, the average level of per capita output of this group was more than thirty times as high as that of the group at the lowest end. Also, as can be observed from chart 2-4, the frequency distribution has a number of peaks over the whole range. The United States and Canada are the two countries with the highest per capita output (over \$2,000) belonging to the top range VIII. The next highest peak occurs at range VI (\$1,000-\$1,499); a large

proportion of the population of the developed market economies of western Europe falls in this range. Below this, there is another significant concentration in range IV (\$300-\$499), but here Japan alone

Chart 2-4. Frequency Distribution of Countries by Per Capita Gross Domestic Product in 1960<sup>a</sup>



Source: Table 2-7.

<sup>a</sup> For definitions of ranges I-VIII, *see* table 2-7.

Table 2-7. Frequency Distribution of Countries by Per Capita Gross Domestic Product in 1960<sup>a</sup>

Per capita gross domestic product (dollars)	Number of countries	Gross domestic product (billions of dollars)	Population (millions)	Percentage distribution	
				Gross domestic product	Population
I. Less than 100.....	12	71.7	902.9	6.6	46.2
II. 100 to 199.....	14	40.5	238.5	3.7	12.2
III. 200 to 299.....	11	35.8	146.0	3.3	7.5
IV. 300 to 499.....	9	73.5	177.7	6.8	9.1
V. 500 to 999.....	8	58.2	83.1	5.3	4.3
VI. 1,000 to 1,499.....	9	230.0	180.6	21.1	9.2
VII. 1,500 to 1,999.....	5	40.4	25.8	3.7	1.3
VIII. 2,000 and above.....	2	539.8	198.7	49.5	10.2
TOTAL	70	1,089.9	1,953.2	100.0	100.0

Source: See appendix.

<sup>a</sup> Details and percentages do not necessarily add to totals, because of rounding.

accounts for a little more than half of the population as well as of gross domestic product. There is heavy concentration of population on the lowest scale of the distribution. The developing countries fall mainly in the ranges between I and IV; the most notable exception, however, is Venezuela whose per capita output is above \$1,000, largely as a result of the

impetus received by petroleum production. Nearly three-quarters of the population in the developing areas is, in fact, in range I—that is, with per capita output of less than \$100. Indeed, as high a proportion as 94 per cent of the population in the developing areas has a per capita output amounting to less than \$300.

### Targets of economic growth in the nineteen sixties

It need hardly be stressed that the preceding discussion of recent trends in gross domestic product raises important questions for the future growth of the world economy. Economic growth has now become a central objective everywhere in the world. In the developed market economies, which not too long ago were preoccupied with the problems of economic stability, increasingly greater attention is being devoted to achieving steady economic growth. The Organisation for Economic Co-operation and Development (OECD), for example, aims at achieving a 50 per cent increase in the gross domestic product of its member countries during the nineteen sixties, or, on the average, at an annual rate of 4.2 per cent. In the large number of developing countries in Africa, Asia and Latin America, rapid economic development is, of course, the most crucial issue of contemporary times. It is indeed in recognition of the importance of this issue that the United Nations General Assembly, through its resolution 1710 (XVI), has designated the nineteen sixties as the United Nations Development Decade. A specific objective of the Assembly resolution is “to attain in each under-developed country a substantial increase in the rate of growth, with each country setting its own target, taking as the objective a minimum annual rate of growth of aggregate national income of 5 per cent at the end of the Decade”. The present section of this chapter examines some of the implications of the Development Decade target for the developing countries vis-à-vis the OECD target for the developed market economies in the light of past trends.

Table 2-8 shows a number of hypothetical calculations relating to the absolute and per capita gross domestic product in 1970 of the developed and the developing market economies. Some of the calculations represent simply extrapolations of past trends, while others are derived on the basis of a number of different projection targets. These hypothetical calculations are not forecasts of what will necessarily happen, but only magnitudes that result from certain assumptions. These assumptions, however, derive their plausibility from decisions of Governments, and therefore an exercise which seeks to trace their quantitative implications may prove to be of

some assistance to policy makers. It is in this sense that the calculations presented here, though only of an illustrative nature, may serve as a basis for considering the changes in international and national policies relating to trade and aid that are required for fulfilling the objectives of the Development Decade.<sup>9</sup>

It may be noted at the outset that for calculating the hypothetical levels of per capita gross domestic product certain projections of population have been taken as data.<sup>10</sup> According to these projections, the population of the developed market economies is likely to increase from 653 million in 1960 to 725 million in 1970, or at an annual rate of 1.1 per cent. This rate of increase is slightly lower than that recorded in the nineteen fifties. By contrast, during the same period, the population of the developing countries is estimated to increase from 1,301 million to 1,642 million, or at annual rate of 2.4 per cent. Thus, compared with the nineteen fifties, the growth of population in the developing countries is expected to accelerate somewhat in the nineteen sixties.

The principal elements of the illustrative exercise can now be put together. The gross domestic product of the developed market economies as a group increased at an annual trend rate of 3.7 per cent in the nineteen fifties.<sup>11</sup> If this rate of growth were maintained for the group as a whole in the present decade, the gross domestic product of the developed market economies would amount to \$1,323 billion in 1970.<sup>12</sup> Applying the population projections set

<sup>9</sup> An analysis of the trade needs of the developing countries for their accelerated economic growth is presented in chapter 3.

<sup>10</sup> See foot-note *b* to table 2-8.

<sup>11</sup> This trend rate has been obtained from a growth curve fitted to the time series of gross domestic product for 1950-1960. It differs from the average annual compound rate for the same period, as explained in foot-note 4. In view of the variability in annual changes in growth in the course of the decade, the trend rate is undoubtedly a more reliable measure for the average growth rate for the decade than is the average annual compound rate which is affected by random and cyclical influences in the terminal years. It should be noted, however, that for the developing countries the trend rate was the same as the average annual compound rate.

<sup>12</sup> If the trend rates of growth of *individual* countries were maintained, the gross domestic product of the developed

Table 2-8. Extrapolations of Past Trends and Hypothetical Projections of Gross Domestic Product, Absolute and Per Capita, of Developed and Developing Market Economies in 1970

Item	1960 (actual)	1970 (hypothetical)				
		Extrapolated at the rate observed during 1950-1960	Estimated according to alternative projection targets <sup>a</sup>			
			(1)	(2)	(3)	(4)
<i>Level</i>						
Developed market economies:						
Gross domestic product (billions of dollars).....	920	1,323	1,388			
Per capita gross domestic product (dollars).....	1,410	1,825	1,914			
Population (millions) <sup>b</sup> .....	653		725			
Developing market economies:						
Gross domestic product (billions of dollars).....	170	261	271	277	282	293
Per capita gross domestic product (dollars).....	131	159	165	169	172	178
Population (millions) <sup>b</sup> .....	1,301		1,642			
<i>Annual rate of growth (percentage)<sup>c</sup></i>						
Developed market economies:						
Gross domestic product.....	3.7 <sup>d</sup>	3.7	4.2			
Per capita gross domestic product.....	2.4 <sup>d</sup>	2.6	3.1			
Population .....	1.2		1.1			
Developing market economies:						
Gross domestic product.....	4.4	4.4	4.8	5.0	5.2	5.6
Per capita gross domestic product.....	2.2	2.0	2.4	2.6	2.8	3.2
Population .....	2.2		2.4			
<i>Distribution of gross domestic product (percentage)<sup>e</sup></i>						
Developed market economies.....	84.4	83.5	83.7	83.4	83.1	82.6
Developing market economies.....	15.6	16.5	16.3	16.6	16.9	17.4
<i>Distribution of population (percentage)<sup>b, e</sup></i>						
Developed market economies.....	33.4		30.6			
Developing market economies.....	66.6		69.4			

Source: Bureau of General Economic Research and Policies of the United Nations Secretariat.

<sup>a</sup> Gross domestic product is assumed to increase during 1960-1970 at the annual compound rate of 4.2 per cent in the developed market economies. For the developing market economies, the alternative targets relating to gross domestic product are:

- (1) A gradual increase from 4.4 per cent per year in 1960 to a terminal rate of 5.0 per cent per year in 1970 in the group as a whole.
- (2) An increase at the average annual compound rate of 5 per cent during 1960-1970 in the group as a whole.
- (3) A gradual increase so as to reach a terminal rate of 5 per cent per year in 1970 in each country which experienced an annual growth rate of less than 5 per cent in the nineteen fifties, the rates of increase in other countries remaining at the levels reached in the nineteen fifties.
- (4) An increase at the average annual compound rate of 5 per cent during 1960-1970 in each country which experienced an annual growth rate of less than 5 per

cent in the nineteen fifties, the rates of increase in other countries remaining at the levels reached in the nineteen fifties.

<sup>b</sup> Population is assumed to increase from 653 million in 1960 to 725 million in 1970, or at annual rate of 1.1 per cent, in the developed market economies and, during the same period, from 1,301 to 1,642 million, or at annual rate of 2.4 per cent, in the developing market economies. These projections of population have been prepared by the Population Branch of the Bureau of Social Affairs of the United Nations Secretariat and the secretariat of the United Nations Economic Commission for Latin America.

<sup>c</sup> Data in first column refer to actual rates of growth during 1950-1960; in subsequent columns, they refer to hypothetical rates of growth during 1960-1970 derived from the assumptions specified in foot-notes *a* and *b* above.

<sup>d</sup> Trend rate obtained from growth curve fitted to time series data for 1950-1960. This differs from average annual compound rate shown in table 2-1 or 2-3, as explained in foot-note 4 in this chapter.

<sup>e</sup> All market economies equal 100.

out in the preceding paragraph, it can be seen that the per capita output would increase from \$1,410 in 1960 to \$1,825 in 1970, or at an annual rate of 2.6 per cent. If, however, the OECD target of 4.2

market economies would amount to \$1,360 billion in 1970, representing an annual rate of growth of 4 per cent for the group.

per cent annual increase were employed as the basis for calculations, the gross domestic product of this group of countries would amount to \$1,388 billion in 1970, and per capita income would increase to \$1,914, or at an annual rate of 3.1 per cent.

As for the developing countries, if their rate of growth as a group in the nineteen fifties were main-

tained—that is, 4.4 per cent per year—their gross domestic product would increase to \$261 billion in 1970, or by \$91 billion over the 1960 level. By relating the population projections mentioned above to this result, it may be seen that the per capita gross domestic product would increase to \$159 in 1970, or on the average at the rate of 2 per cent per year.

There is no doubt, however, that a continuation of past trends in the developing countries is not something that can be looked upon with favour anywhere. Indeed, in view of the accelerating trend in population, the maintenance of the growth rates of total output would in fact involve a smaller growth rate in per capita output than that which prevailed in the nineteen fifties. Debates in the United Nations have time and again emphasized the urgency of accelerating the economic growth of these countries. It is in this context that the General Assembly has established, as noted earlier, the Development Decade target of a minimum annual rate of growth of 5 per cent to be achieved in these countries. What magnitude of gross domestic product this target would yield at the end of the decade naturally depends upon whether, for example, the target is applied to the developing countries as a group or as individual entities, and, again, whether in each of these two cases the annual rate of growth is expected to increase gradually so as to reach a terminal rate of 5 per cent at the end of the nineteen sixties or is expected to average 5 per cent as an annual compound rate for the decade as a whole. These are only a few of the several possible combinations. The discussion that follows examines only these few alternatives since they appear to be particularly cogent.<sup>13</sup>

Thus, according to target (1) set out in table 2-8, the gross domestic product of the developing countries as a group would increase *gradually* from 4.4 per cent per year in 1960 to a terminal rate of 5 per cent per year in 1970. In that case, it would amount to \$271 billion in 1970, or \$10 billion more than what it would be if the trend rate of 1950-1960 were to prevail. It also follows from this calculation that, over the period 1960-1970 as a whole, the average annual compound rate of growth would be 4.8 per cent per year. Per capita output would increase to \$165 in 1970, or by 2.4 per cent per year. If, however, the gross domestic product of the developing countries as a group were to grow at the average annual compound rate of 5 per cent in the nineteen sixties—target (2)—it would total \$277 billion in 1970; correspondingly, per capita output would reach \$169, implying an annual rate of increase of 2.6 per cent.

<sup>13</sup> The implications of these alternatives for the trade needs of the developing countries are examined in chapter 3.

Targets (1) and (2), clearly, provide only a hypothetical portrait of the gross domestic product of the developing countries as a single group. Targets (3) and (4), on the other hand, represent two variants of the assumption that a minimum annual rate of growth of 5 per cent would be attained by 1970 in each developing country. According to target (3), the gross domestic product of each developing country which experienced an annual growth rate of less than 5 per cent in the nineteen fifties would increase *gradually* so as to reach a terminal rate of increase of 5 per cent in 1970, the rates of increase in other developing countries remaining at the levels reached in the nineteen fifties. In that case, the gross domestic product of these countries as a group would total \$282 billion in 1970, representing an average annual compound rate of growth of 5.2 per cent per year over the decade as a whole; and per capita output would increase to \$172, or by 2.8 per cent per year. According to target (4), however, the gross domestic product of each developing country which experienced an annual growth rate of less than 5 per cent in the nineteen fifties would increase at the average annual compound rate of 5 per cent per year in the nineteen sixties, the rates of increase in other developing countries remaining at the levels reached in the nineteen fifties. Under this set of assumptions, the gross domestic product of the developing countries as a group would amount to \$293 billion in 1970. The average annual compound rate of increase for the group during the decade as a whole would be 5.6 per cent. Under this target, the per capita output of the developing countries would increase to \$178 in 1970, or on the average by 3.2 per cent per year, a rate just in excess of that which is implicit in the target for the developed countries. This is a significant rate of acceleration which would undoubtedly present a considerable challenge for both national and international policy.<sup>14</sup>

It follows as a corollary that if gross domestic product does increase at a higher rate in the developing countries than in the developed market economies, the share of the former group in the total would rise. Such a trend was already evident in the nineteen fifties; the developing countries accounted for 15.6 per cent of the gross domestic product of all market economies in 1960 as against 15.1 per cent in 1950. According to the postulates set out in table 2-8, the share of the developing countries in the total would range from—depending upon which one of the postulates is employed—16.3 to 17.4 per

<sup>14</sup> Provisional estimates suggest that extremely high incremental rates of domestic saving would be needed to finance the added investment required to achieve such a rate of acceleration of output. This is over and above the additional foreign capital that would be necessary to finance the estimated trade gap as discussed in chapter 3.

cent in 1970. Clearly, whichever target is selected, the improvement in the share over the nineteen sixties would be small. This small improvement, moreover, must be seen against the growth of population. As noted earlier, during the nineteen sixties, the population of the developing countries is expected to increase at a rate more than twice as large as the corresponding rate for the developed market economies. Under this set of assumptions, the share of the developing countries in the total population of all market economies would amount to 69.4 per cent in 1970 as against 66.6 per cent in 1960. Thus, more than two-thirds of the population of market

economies would be accounting for just about 17 per cent of their gross domestic product.

There is no question, however, that the task of bringing about even the modest improvement that is implicit in the Development Decade target is far from easy. The task requires vigorous and sustained efforts on a wide front by the developing countries. And these efforts need to be matched by appropriate international measures relating to trade and aid, as is discussed at some length in the following chapters. Indeed, only in the favourable environment of the right combination of national and international policies will it be possible to accelerate the pace of economic activity in the developing countries.

## Appendix

This note describes the basic sources of data and the methods of calculating the estimates shown in tables 2-1 to 2-7. The methods employed for calculating the hypothetical projections shown in table 2-8 are explained in the footnotes to that table.

*Estimates of gross domestic product.* Estimates of gross domestic product are based on the data given in United Nations, *Yearbook of National Accounts Statistics* and in national sources. In general, the estimates refer to gross domestic product at market prices. Estimates in current prices have been converted into constant (1960) prices by applying appropriate "deflators" to components of gross domestic product by expenditure or by industrial origin; where official "deflators" are not available, price indices, such as cost of living indices, wholesale price indices and export and import price indices, have been used for obtaining constant price estimates. The constant price estimates of gross domestic product in national currencies have been converted into dollars by means of the exchange rates prevailing in 1960. In making use of these estimates, the limitations of exchange rates as measures for comparing purchasing powers of national currencies should be kept in

mind. It should also be noted that, because of the limitations of data, certain rough estimates have had to be made for a number of developing countries. In each geographical region, such countries have been combined into a single category called "others".

*Estimates of population.* The population estimates have been provided by the Population Branch of the Bureau of Social Affairs of the United Nations Secretariat. They incorporate recent revisions as well as adjustments for territorial coverage. It should be noted, however, that these estimates are provisional and subject to further revisions.

*Rates of growth.* Unless otherwise specified, the rates of growth refer to average annual compound rates of growth between terminal years, defined by the expression:

$$100 \left( \sqrt[n-1]{\frac{X_n}{X_1}} - 1 \right)$$

where  $X_1$  and  $X_n$  refer to the variable whose growth is being measured in the initial and final years, respectively, of the period under consideration, and  $n-1$  refers to the duration of that period.

## Chapter 3

# TRADE NEEDS OF DEVELOPING COUNTRIES FOR THEIR ACCELERATED ECONOMIC GROWTH

### The problem and its setting

Economic advance of the developing nations of Africa, Asia and Latin America is undoubtedly a crucial problem of contemporary times. Virtually everywhere in these continents, Governments have assigned top priority to the task of achieving sustained economic growth and improvements in the standard of living. The large number of plans or programmes of economic development that have been or are being formulated are indicative of this determination. Equally significant in this connexion is the recognition that the problem of economic development transcends national boundary limits, as is evidenced by the numerous resolutions adopted in the United Nations on international measures for economic development.

Thanks to these national and international efforts, the developing countries have already made a number of significant gains. The combined gross domestic product of these countries increased in constant prices at the average annual compound rate of 4.4 per cent during the nineteen fifties.<sup>1</sup> This is by no means a small achievement. In fact, in many countries, the rates of economic growth recorded in the nineteen fifties marked a sharp break from the stagnation of the past. Moreover, an important beginning has been made towards diversification of the economies of the developing countries.

There is, however, a disturbing undercurrent running through recent economic trends. While in the nineteen fifties as a whole the developing countries did achieve an annual rate of growth of 4.4 per cent, the rate has tended to decelerate with the passage of time. Preliminary estimates indicate that the rate in the early part of the nineteen sixties was not significantly above 4 per cent. Furthermore, given the rapid growth of population, the annual increase in per capita gross domestic product amounted to only 1.8 per cent in the second half of the nineteen fifties, and to an even lower figure in the early part of the nineteen sixties.

<sup>1</sup> See chapter 2.

It is in this context, as indicated earlier, that the United Nations General Assembly, through its resolution 1710 (XVI), designated the nineteen sixties as the United Nations Development Decade, and called for achieving a minimum annual rate of economic growth of 5 per cent in the developing countries. Even though this is a modest target, its achievement is by no means easy. It requires dynamic policies by the developing countries as well as by the world community, which has for the first time in history established a global perspective.

For achieving an acceleration in the pace of economic activity in the developing countries, such as the acceleration implicit in the Development Decade target, the balance of payments is unquestionably a crucial limiting factor. As indicated in somewhat greater detail in chapter 1, the demand for goods exported by the developing countries has, for a variety of reasons, been increasing only sluggishly, while the prices of these goods have tended to sag. On the other hand, heavily dependent as these countries are on imported supplies of machinery and other capital goods which are strategic for lifting the levels of capital formation for economic growth, their own demand for imported goods has been sharply on the increase. In recent years, in fact, the increased import demand has included not only capital goods, but food-stuffs and raw materials as well. At the same time, the prices of a wide range of goods imported by these countries have been edging up. As a result of all these factors, the trade balance of the developing countries has tended to worsen steadily. Their balance on services account, too, has been chronically in deficit, for these countries are also heavily dependent on the transport and related services provided by concerns in the developed countries.

Clearly, therefore, it will be possible to achieve a higher rate of economic growth in the developing countries only if their trade needs can be filled through modifications of commercial policies and through an enlarged flow of capital—a flow which

has been playing an extremely valuable part in promoting economic activity in these countries in recent years. It is important, therefore, that a quantitative assessment be made of the future trade needs of the developing countries. Several of the developing countries which have formulated comprehensive economic plans are themselves scrutinizing and assessing their trade requirements. Much work, however, still remains to be done on a country level in this respect. To demonstrate the types of problems encountered in this activity, the present chapter has sought to make a broad quantitative assessment of the trade needs implicit in the Development Decade target.

It may be recalled that a preliminary assessment of this nature was presented in the preceding issue of the *World Economic Survey*.<sup>2</sup> The present chapter provides a revised assessment on the basis of somewhat more recent data. In preparing this revision, opportunity has been taken to test alternative assumptions with regard to the definition of the Development Decade target and to calculate hypothetical trade needs not only for the developing countries as a group but also for the major geographical regions within the group.

<sup>2</sup> See United Nations, *World Economic Survey, 1962. I. The Developing Countries in World Trade* (Sales No.: 63.II.C.1), chapter 1.

An exercise that seeks quantitative answers relating to a period which is some distance away in the future must by its very nature be highly tentative. The present attempt is no exception. Indeed, the hypothetical calculations which are shown in the following sections need to be verified and revised continually as more data are accumulated and as methodological techniques are improved. This is particularly true in the case of the developing countries where statistical information is often scanty, but is increasing as greater experience is gathered. With the establishment of the Economic Projections and Programming Centre at United Nations Headquarters and the regional centres in the regional economic commissions, methodological as well as empirical work is now in progress, and the results of this work will be made available in special studies and monographs at periodic intervals. The calculations presented here without elaborate technical and statistical details are simply illustrative estimates which may be of some assistance for discussions on international policies relating to trade and aid. For interested readers, however, a summary of the methods employed for calculating these estimates is provided in the technical appendix to this chapter.<sup>3</sup>

<sup>3</sup> A detailed discussion of the methodology and statistical techniques employed is provided in United Nations, *Studies in Long-term Economic Projections for the World Economy: Aggregative Models* (Sales No.: 64.II.C.2).

## A hypothetical assessment of trade needs of the developing countries

Experience has shown that there is a close link between the rate of economic growth and the available supply of investment goods. Thus, in order to achieve the Development Decade target, the developing countries require a specific increase in the supply of investment goods. Since the domestic capacity to produce these goods is generally limited in the developing countries, a certain—usually substantial—amount of such goods has to be imported. At the same time, the rising levels of income are bound to induce an increase in the demand for consumer goods, and a part of this increase, too, has frequently to be supplied by imports. Altogether, therefore, the acceleration of the pace of economic growth in the developing countries is likely to set into motion a substantial increase in imports. In turn, imports have to be financed, barring short-term withdrawals from gold and foreign currency reserves, through export receipts and inflows of capital from abroad. Both exports and capital inflows are determined largely, though by no means exclusively, by forces beyond the control of the country concerned. This is broadly the framework which is employed here for

calculating the trade needs of the developing countries at an aggregate level.

It is, of course, true that the precise links between external variables and the rate of growth of gross domestic product vary from country to country, since national economic structures often differ significantly. These links are also likely to change as a country moves from one stage of development to another. As economic development gathers momentum, domestic production becomes more and more diversified and able to meet demand requirements. Once adequate statistical information becomes available, it will be possible to estimate future requirements on an individual country basis, or at least on a far more disaggregative basis than is attempted here. However, notwithstanding these qualifications, it is believed that the framework outlined in the preceding paragraph does provide a useful tool for assessing the trade needs of the developing countries even on an aggregative basis. To the extent that this tool yields an indication of the task to be accomplished by means of appropriate national and



international policies for altering the past relationships between economic variables so as to overcome the problems likely to be associated with acceleration in economic development, it has obviously an important role to play.

An essential part of the exercise, then, is to estimate the empirical relationships between gross domestic product, investment and import requirements of the developing countries, as well as to prepare a quantitative sketch of the major forces affecting the demand for their exports. Such relationships have been worked out from the data for the nineteen fifties and are shown in the technical appendix. These empirical relationships serve as the basis for projecting the future trade needs of the developing countries and for assessing the magnitude of policy changes required to fill the trade needs.

The principal results of the exercise are set out in table 3-1. The combined gross domestic product

of the developing countries amounted to about \$170 billion in 1960. As indicated in the preceding chapter, the Development Decade target calls for achieving "in each under-developed country a substantial increase in the rate of growth, with each country setting its own target, taking as the objective a minimum annual rate of growth of aggregate national income of 5 per cent at the end of the Decade". What magnitude of gross domestic product this target would yield at the end of the decade—that is, in 1970—naturally depends upon whether, for example, the target is applied to the developing countries as a group or as individual entities, and, again, whether in each of these two cases the annual rate of growth is expected to increase gradually so as to reach a terminal rate of 5 per cent at the end of the nineteen sixties or is expected to average 5 per cent as an annual compound rate for the decade as a whole.<sup>4</sup> For the purposes of this exercise, it is as-

<sup>4</sup> See chapter 2.

Table 3-1. Developing Countries: Hypothetical Projections of Balance of Payments with the Rest of the World Emerging from an Accelerated Rate of Gross Domestic Product

(Billions of dollars in 1960 prices and exchange rates)

Item	1960 (observed) I	1970 <sup>a</sup> (hypothetical) II	Remarks on derivation of figures in column II <sup>b</sup>
1. Gross domestic product.....	170	277	Assumed to increase at the average annual compound rate of 5 per cent for the period 1960-1970 as a whole
2. Commodity imports from the rest of the world .....	22.5	42	Hypothetical level of imports unadjusted for structural changes and policy measures; calculated on the basis of relationships prevailing in the period 1950-1960 between imports and gross domestic product of the developing countries
Of which:			
a. Primary .....	4.9	9	
b. Manufactures and base metals....	17.1	33	
3. Commodity exports to the rest of the world .....	21.0	31	
a. To developed countries.....	19.7	28	Calculated on the basis of relationships prevailing in the period 1950-1960 between imports from the developing countries and the gross domestic product of the developed market economies; the gross domestic product of the developed market economies assumed to increase at the same rate as in the period 1950-1960 (3.7 per cent per year)
Of which:			
Primary .....	17.1	24	
Manufactures and base metals..	2.5	4	
b. To centrally planned economies...	1.3	3	Calculated by using the target for the trade turnover of the centrally planned economies
4. Payments for investment income and other services (net).....	3.3	9	Assumed to be related to commodity exports and imports
5. Initial gap on current account (rows 2 and 4 minus row 3).....	4.9 <sup>c</sup>	20	Hypothetical deficit in balance of payments on current account based on historical (1950-1960) relationships between trade components and gross domestic product and unadjusted for national and international policies
Of which:			
Latin American .....	0.7	5	
Africa .....	2.0	6	
Far East .....	2.4	6	
West Asia and other.....	-0.2	3	

<sup>a</sup> Figures are rounded to nearest integer.

<sup>b</sup> For further details, see technical appendix.

<sup>c</sup> The figure is derived from national income accounts of the constituent countries, and may differ from the one shown in the balance of payments accounts.

sumed that the gross domestic product of the developing countries as a group would increase at the average annual compound rate of 5 per cent during the nineteen sixties as a whole. Such an average for the decade implies that the annual rate of growth of the developing countries would be raised to a terminal rate of 5.5 per cent in 1970. Under this assumption, the gross domestic product of the developing countries in prices of 1960 would amount to \$277 billion in 1970.<sup>5</sup>

It may be pointed out that the choice of this particular assumption regarding the Development Decade target does not imply that it has any distinct advantage or that it is more likely to be near the actual outcome. Indeed, none of the figures cited in this chapter can be conceived as a forecast. As emphasized already, all calculations shown here are purely hypothetical. In order to facilitate the discussion, however, it is useful to calculate and assess the relevant magnitudes on the basis of one particular assumption with regard to the target and then compare the results with those that emerge from other similar assumptions. Such a comparison is provided in the following section.

In order to increase the gross domestic product of the developing countries to \$277 billion in 1970, the empirical relationships show that gross fixed investment would have to increase even faster than gross domestic product. The higher level of investment would require larger imports of machinery and equipment. In many instances, there might also be a need for enlarged imports of raw materials. And as incomes increase in the wake of acceleration in economic activity, there is likely to be an increased need for imported food-stuffs and manufactured consumer goods. Assuming that the average relationships of the gross domestic product and of the gross fixed investment of the developing countries with the relevant components of their imports prevailing in the nineteen fifties would also hold in the nineteen sixties,<sup>6</sup> imports of primary commodities would increase from \$4.9 billion in 1960 to about \$9 billion in 1970, and during the same period imports of manufactures and base metals would expand from \$17.1 billion to approximately \$33 billion. The projections of past trends of imports of primary commodities are, of course, influenced by the large supplies of agricultural products made available to the developing countries under Public Law 480 of the United States as part of aid programmes. If such supplies contract in the future, imports of primary commodities into the developing countries may turn out to be smaller. However, assuming for the moment that the past relationships would hold, total

imports of the developing countries would rise from \$22.5 billion in 1960 to around \$42 billion in 1970. It follows as a corollary that the ratio of imports to gross domestic product would increase during this period from 13 to 15 per cent.

By far the largest part of the exports of the developing countries to the rest of the world goes to the developed market economies. The prospects for their exports, therefore, are closely related with the level of economic activity in the latter country group. In this exercise, in fact, it is assumed that the level of gross domestic product of the developed market economies is the sole determinant of their imports from the developing countries. If the average relationships between the gross domestic product of the developed market economies and the relevant components of their imports from the developing countries observed in the nineteen fifties were to continue to prevail,<sup>7</sup> and if the gross domestic product of the developed market economies were to continue to increase at the same rate as in the nineteen fifties—that is, 3.7 per cent per year<sup>8</sup> the developing countries would be able to increase their exports to the former country group from \$19.7 billion in 1960 to about \$28 billion in 1970.

Although exports from the developing countries to the centrally planned economies are comparatively small, they have been increasing quite rapidly in recent years.<sup>9</sup> The future prospects of such exports would, of course, depend upon the targets of economic growth established or to be established by the centrally planned economies. Since information on such targets for 1970 is not available, it is assumed that the ratio of exports from the developing countries to the centrally planned economies to the total trade turnover of the centrally planned economies would remain the same as in 1960. Under this assumption and on the basis of the trade turnover targets shown in another document, it appears that the exports from the developing countries to the centrally planned economies would aggregate about \$3 billion in 1970 as against \$1.3 billion in 1960.<sup>10</sup>

Altogether, then, these postulates imply that, in the absence of structural economic changes and new policy measures, the total exports of the developing countries to the rest of the world—that is, to countries other than those that are members of their own group—would increase from \$21 billion in 1960 to \$31 billion in 1970. Furthermore, since these postulates suggest a much smaller increase in exports

<sup>7</sup> *Ibid.*

<sup>8</sup> See chapter 2.

<sup>9</sup> See chapter 1.

<sup>5</sup> All figures cited in this chapter are derived from data in the prices and exchange rates prevailing in 1960.

<sup>6</sup> See technical appendix.

<sup>10</sup> United Nations, "Past Trade Flows and Future Prospects for Trade between the Centrally Planned Economies and Developing Countries" (mimeographed document E/CONF.46/35).

than in imports, it follows implicitly that the deficit in merchandise trade balance would rise from \$1.5 billion in 1960 to approximately \$11 billion in 1970.

The merchandise trade balance is, however, only one component of the balance of payments on current account. As noted earlier, the balance of service transactions of the developing countries tends to be traditionally in deficit, for it is yet another aspect of under-development that these countries have to depend heavily on the merchant fleet and insurance companies of the economically advanced countries to meet the transport and insurance requirements of their foreign trade and make payments at the same time for the servicing of their external debts. Hypothetical estimation of the deficit on services' account is, therefore, also an essential part of the exercise.

For the purposes of this exercise, service transactions are divided into three groups—namely, (a) net payments for investment income, (b) gross receipts for service items other than investment income and (c) gross payments for service items other than investment income. Items in groups (a) and (b) are assumed to increase proportionately with the exports from the developing countries to the rest of the world, while items in group (c) are related to the projections for imports.<sup>11</sup> These assumptions imply that the developing countries would have to make net payments for all services totalling \$9 billion in 1970 as against \$3.3 billion in 1960.

Thus, as can be seen from table 3-1, the deficit in the balance of payments on current account of the developing countries on the basis of the assumptions made would increase from about \$5 billion in 1960 to around \$20 billion in 1970. It is implicit in these calculations that, were the relationships of the relevant economic variables in the past decade to

<sup>11</sup> See technical appendix.

remain unchanged and were no new domestic and international policies adopted, every dollar's worth of additional gross domestic product would add to the deficit in the balance of payments on current account an amount approximately equal to 15 cents.

In this exercise, an attempt has also been made to calculate the hypothetical deficit for major developing regions. The hypothetical level of imports of goods and services of each developing region has been calculated by relating the import data with the region's gross domestic product. The hypothetical level of exports of goods and services, on the other hand, has been calculated for the developing countries as a group in the manner explained earlier, and then distributed among regions by major commodity classes according to the respective shares of the regions in the total during the period 1953-1960.<sup>12</sup> On the basis of these postulates, the deficits in Africa and in the Far East would each reach \$6 billion in 1970, as against \$2 billion and \$2.4 billion, respectively, in 1960 (see table 3-1). Similarly, the deficit in Latin America would total \$5 billion in 1970, compared with \$0.7 billion in 1960.<sup>13</sup> In West Asia,<sup>14</sup> which includes a number of countries with a pronounced tendency to enlarge their imports with every increase in their gross domestic product, hypothetical calculations suggest that the small surplus in 1960 would give place to a deficit of \$3 billion in 1970. Implicit in this last calculation is also the assumption that the petroleum exports of the West Asian countries would not increase as fast in the present decade as in the nineteen fifties.

<sup>12</sup> For fuels, however, a rough adjustment has been made to allow for the possibility of an increased share of petroleum exports from Africa. See technical appendix.

<sup>13</sup> The year 1960 was, however, a relatively favourable one for Latin America. The deficit was much larger in some of the preceding years, especially 1957 and 1958.

<sup>14</sup> And the developing countries not elsewhere specified.

## Major policy implications

The preceding discussion has brought out that a continuation of the past trends would result in a gap on current account of the developing countries to the tune of \$20 billion in 1970. However, in assessing the magnitude of the gap—or, what may be called the trade needs of the developing countries in 1970—it must immediately be noted that no account has thus far been taken of the net flow of long-term public and private funds from abroad. Just as the computations leading to the figure of the gap on current account have been based on the assumption that the relevant past trends would continue, it might well be examined as a first step what magnitude of foreign capital the developing countries

would receive in 1970 if the flows of public and private funds were to follow the same trends as they did in the nineteen fifties. Calculations on this basis suggest a figure of \$9 billion for 1970 (see table 3-2). Although this amount is significantly larger in absolute terms than the actual inflow received by the developing countries in 1960, in relation to the prospective size of the world economy in 1970 it is no larger than what it was in relation to the size of the world economy in 1960. Thus, if the components of both the current and capital account were to increase according to the trends in the nineteen fifties, the gap in the balance of payments encoun-

**Table 3-2. Developing Countries: Illustrative Adjustments for Financing the Hypothetical Deficit in the Balance of Payments with the Rest of the World Emerging from an Accelerated Rate of Growth of Gross Domestic Product**

(Billions of dollars in 1960 prices and exchange rates)

Item	1970 (hypothetical)
1. Initial gap on current account emerging from acceleration of gross domestic product as shown in row 5 of table 3-1.....	20
2. Net inflow of long-term capital and official donations calculated on the basis of trends in the period 1950-1960.....	9
3. Hypothetical gap on current and capital account .....	11
4. Illustrative adjustments to close the gap	
a. Increase in exports resulting from acceleration of rate of economic growth in developed market economies implicit in OECD target .....	2
b. Required contribution of other policy changes: export drive; increased import substitution; measures to improve net balance of service transactions; and achievement of General Assembly target for flow of capital.....	9

tered by the developing countries would be of the order of \$11 billion.

There is no reason, however, why, in a dynamic world where economic change is taking place constantly, everything should follow the dictates of its past. It is the essence of economic development that economic structures should change, that economic variables should realign their relationships and that vigorous policies should be pursued to change the old economic order. It is pertinent therefore to sketch the contours of policies that could lead to a balance in external accounts.

For example, the developing countries might achieve a better performance of exports than is indicated by the hypothetical calculations summarized in table 3-1. One of the assumptions underlying those calculations is that the gross domestic product of the developed market economies would continue to expand at its trend rate of 3.7 per cent per year. However, the Organisation for Economic Co-operation and Development (OECD) has stipulated an increase of 50 per cent during the nineteen sixties in the gross domestic product of its member countries, or at the average annual compound rate of 4.2 per cent. If the OECD target were achieved, the exports of the developing countries to the developed market economies would be larger by about \$2 billion than is indicated in table 3-1.

Over and above the beneficial influence of acceleration in economic activity in the developed

market economies, some positive results might also be yielded by a concerted export drive on the part of the developing countries. Too often in the past these countries have accorded a lower priority to exports. There are indications, however, that the emphasis is beginning to shift. Of course, the export drive on the part of the developing countries would succeed only in the environment of liberal commercial policies in the economically advanced countries. If adequate international measures are adopted to remove obstacles in the markets of the economically advanced countries on products—primary commodities as well as manufactured goods—exported by the developing countries, the benefits are likely to be substantially greater.<sup>15</sup>

Furthermore, the developing countries might be expected to devote even more attention to import substitution than they have in the past. As indicated earlier, these countries have been receiving significantly large supplies of agricultural products under Public Law 480 of the United States. These supplies might not be available in large quantities in the future. On the other hand, with the help of improved agricultural techniques and practices, the developing countries should be able to step up their agricultural output, and thus conserve supplies of foreign exchange. A similar process of domestic expansion might also emerge in other sectors. For instance, it is well known that industrialization in the developing countries has received great impetus from import substitution.<sup>16</sup> In recent years, many consumer industries have been established and expanded to meet the requirements formerly met by imports. The less industrialized developing countries might still find a great deal of scope in this area. And the more industrialized developing countries which have already expanded consumer industries to a sufficient extent might find it profitable to develop intermediate and capital goods industries. Also, efforts to promote trade among the developing countries through intra-regional specialization could reduce the dependence on imports from the rest of the world. If such policies are pursued, the level of imports in 1970 need not be as large as the calculations based on the assumption of continuation of past trends show.

If appropriate measures are formulated, the deficit on services account, too, could turn out to be smaller than the hypothetical calculation shown in row 4 of table 3-1. As the tempo of economic activity in the developing countries increases and as economic structures become diversified, some of these countries might be able to place a greater reliance on their own shipping and insurance companies than they

<sup>15</sup> See, for example, chapters 5 and 7.

<sup>16</sup> See, for example, "Industrialization and economic development" in United Nations, *World Economic Survey, 1961* (Sales No.: 62.II.C.1).

have in the past. And just as export promotion might be pursued with greater vigour, determined action might be taken by the developing countries to attract tourists from abroad with a view to supplementing their foreign exchange receipts. There also appears to be a growing awareness that the debt service burden of these countries needs to be reduced. If loans are provided to the developing countries on easier terms in the future, there should be some easing of potential strain on their external accounts.

There is yet another area of international policy which might yield substantial benefits for the developing countries. Through its resolution 1522 (XV), the General Assembly of the United Nations has urged that the flow of economic assistance and capital to the developing countries be increased so as to amount to one per cent of the combined national incomes of the developed countries. In the discussion thus far it has been assumed that the net flow of funds to the developing countries would increase simply in accordance with its past trends. It would actually be more appropriate to assume that progress would be made towards achieving the goal established by the Assembly, and the past trend would accordingly be modified. A good part of the success in this respect, of course, depends upon the policies of the contributing countries. There is no gainsaying, however, that the developing countries, too, need to formulate suitable policies with a view to attracting public and private capital. In such an environment, again, the net flow of funds to the developing countries in 1970 could be larger than the hypothetical calculation of \$9 billion cited earlier.<sup>17</sup> Such an increase in the international flow of capital would contribute towards filling the trade gap not only directly as a supplement to the foreign exchange earnings of the developing countries but also indirectly by providing international assistance for the development of export-promoting and import-saving industries.

These considerations suggest that if appropriate national and international measures are adopted and vigorously implemented, it should be possible to fill the gap in the external accounts that would be generated by the acceleration in economic growth implicit in the Development Decade target. Indeed, the process of economic development must in the final analysis bring about important alterations in the past relationships between various economic variables which formed the basis of hypothetical calculations shown in table 3-1. Favourable alterations in such relationships would obviously imply a smaller gap on current account, while unfavourable relationships might endanger not only the realization of growth

targets but even the continuation of past rates of growth. For instance, the fact that these calculations have been made in prices of 1960, which is tantamount to assuming that the terms of trade will remain unchanged, imparts an important element of uncertainty. This is especially so since the terms of trade of the developing countries suffered a decline in relation to 1960 in both 1961 and 1962. Although there has been some improvement more recently, the future course of the terms of trade remains uncertain. Clearly, if the terms of trade of the developing countries were to turn adverse by 1970, the gap on current account at the end of the Development Decade would be correspondingly larger.

It must also be reiterated that this exercise has been carried out on the assumption that the gross domestic product of the developing countries as a group would increase at the average annual compound rate of 5 per cent during the nineteen sixties as a whole. If, for example, as discussed in chapter 2, the assumption were that the annual rate of economic growth of these countries as a group would increase gradually to a terminal rate of 5 per cent in 1970, the gross domestic product of the group in 1970 would be \$271 billion rather than \$277 billion, indicated in row 1 of table 3-1. In that case, the initial gap on current account shown in row 5 of table 3-1 would be smaller by \$2 billion. On the other hand, if the assumption were that the gross domestic product of each developing country which experienced an annual growth rate of less than 5 per cent in the nineteen fifties would increase gradually so as to reach a terminal rate of 5 per cent per year in 1970, while the rates of increase in other developing countries remained at the levels reached in the nineteen fifties, provisional estimates suggest that the initial gap on current account in 1970 would be larger by about \$2 billion.<sup>18</sup> Again, if it were assumed that the gross domestic product of each developing country which experienced an annual growth rate of less than 5 per cent in the nineteen fifties would increase at the average annual compound rate of 5 per cent during the nineteen sixties as a whole, while the rates of increase in other developing countries remained at the levels reached in the nineteen fifties, the initial gap on current account in 1970 might be larger by roughly \$6 billion according to similar provisional estimates.<sup>18</sup> These last two variants of the Development Decade target imply not only a larger gap but also the need for a marked constraint on consumption in the developing countries. Indeed, provisional computations show that under these two variants of the target the rates of increase in domestic saving would have

<sup>17</sup> For a detailed discussion of problems and policies relating to external financing of economic development, see chapter 8.

<sup>18</sup> These estimates are highly approximate, since they are derived by using the empirical relationships for the developing countries as a group; they will be revised when the corresponding relationships have been worked out on a less aggregative basis.

to be extremely high. Such additions to domestic finance would be over and above the additional inflow of foreign funds that would be required to close the larger gap in the balance of payments on current account.

In sum, the task before the world community is to achieve a reconciliation of ends and means. The alternative to dynamic policies would obviously be the elimination of the trade gap through the ac-

ceptance of a slower rate of economic growth of the developing countries. But surely such an acceptance would defeat the very purpose that the world community has set out to achieve. In this sense, there is really no alternative. The goal, then, must be to forge an appropriate framework of national and international measures for accelerating the pace of economic activity in the developing countries. It is this framework which provides a perspective to the economic issues before the world community.

## Technical appendix

This appendix provides a brief account of the techniques used in calculating the hypothetical projections shown in table 3-1.<sup>a</sup>

### I. CALCULATION OF THE COMPONENTS OF THE HYPOTHETICAL GAP IN 1970 FOR ALL DEVELOPING COUNTRIES (ROWS 2, 3 AND 4 OF TABLE 3-1)

For purposes of calculating the total gap, all developing countries have been taken as a single economic unit. In view of the heterogeneity of economic structures and diversity of national policies, such simplifying assumptions may have introduced a significant "bias of aggregation". On the other hand, the procedure adopted permits maximum utilization of available time series data, such as imports and exports by major commodity groups in constant prices.<sup>b</sup> In spite of

<sup>a</sup> A detailed discussion of the methodology and statistical techniques used is provided in United Nations, *Studies in Long-term Economic Projections for the World Economy: Aggregate Models*.

<sup>b</sup> The Economic Projections and Programming Centre is currently engaged in preparing aggregate projections on an individual country basis. Lack of standardized time series data of commodity trade in constant prices for each developing country has restricted so far the scope of this work to a sample analysis of selected countries.

the short-comings associated with this simplification, it is felt that the aggregate hypothetical projections shown in table 3-1 could provide a useful, albeit tentative, framework for gauging the broad order of the trade needs of the developing countries.

The hypothetical gap for 1970 shown in table 3-1 is the algebraic sum of three components, namely—imports of commodities from the rest of the world, exports of commodities to the rest of the world and net payments for services to the rest of the world. The projections of each one of these components are based on historical relationships explained below.

#### a. Import requirements of the developing countries

The level of hypothetical imports from the rest of the world shown in row 2 of table 3-1 has been derived from calculations based on linear regressions of major commodity imports on gross domestic product or gross domestic fixed capital formation of the following form:

$$M_i = a_i + b_i Q$$

where  $M_i$  denotes imports of the  $i^{th}$  group from the rest of the world and  $Q$  is the explanatory variable. All variables are measured in millions of dollars in 1960 prices and exchange rates. The time series of imports are shown in table 3A-1 and of gross domestic product and investment in table 3A-2. Regressions of the above-mentioned form covering the period 1953-1960 are shown below:

Dependent variable	Constant term $a_1$	Slope <sup>a</sup> $b_1$	Independent variable	Coefficient of determination
Food-stuffs (SITC 0 + 1).....	-1,763	0.03 (0.005)	b	0.868
Agricultural raw materials and ores (SITC 2 + 4) .....	-858	0.01 (0.001)	b	0.915
Fuels (SITC 3).....	252	0.002 (0.0006)	b	0.693
Chemicals (SITC 5).....	-1,710	0.02 (0.002)	b	0.963
Machinery and transport equipment (SITC 7) <sup>c</sup> .....	-1,158	0.35 (0.049)	d	0.896
Other manufactures and base metals (SITC 6 and 8).....	394	0.04 (0.013)	b	0.634

<sup>a</sup> Figures in parentheses refer to the standard error of the regression coefficient  $b$ .

<sup>b</sup> Gross domestic product of developing countries.

<sup>c</sup> Regression of this group of imports ( $M_7$ ) on

gross domestic product of the developing countries ( $Q$ ) yielded:

$$M_7 = -2,605 + 0.06 Q, r^2 = 0.782$$

(0.014)

<sup>d</sup> Gross domestic fixed capital formation of developing countries.

Table 3A-1. Developing Countries: Estimates of Imports of Goods and Services by Major Regions and Commodity Exports from the Rest of the World to Developing Countries by Major Commodity Groups, 1953-1960 in 1960 Prices and Exchange Rates

(Billions of dollars)

Item	1953	1954	1955	1956	1957	1958	1959	1960
Imports of goods and services, total.....	20.7	22.5	24.5	27.0	29.0	28.1	28.6	30.5
Of which:								
Latin America .....	6.9	7.7	8.0	8.7	9.8	9.3	9.1	9.3
Africa .....	4.6	5.1	5.7	5.9	6.3	6.3	6.6	7.0
Far East .....	6.9	7.2	7.9	9.3	9.7	8.9	9.0	10.0
West Asia .....	1.7	1.9	2.2	2.4	2.4	2.7	2.9	3.1
Others <sup>a</sup> .....	0.6	0.6	0.7	0.7	0.8	0.9	1.0	1.1
Commodity exports from the rest of the world to developing countries, total.....	15.1	16.9	17.8	19.9	21.8	21.1	20.6	22.5
Of which:								
Food-stuffs .....	2.1	1.9	2.0	2.4	2.6	2.8	2.8	3.2
Agricultural raw materials and ores...	0.5	0.6	0.6	0.7	0.8	0.8	0.8	1.1
Fuels .....	0.5	0.6	0.5	0.6	0.6	0.7	0.6	0.6
Chemicals .....	1.1	1.2	1.4	1.5	1.7	1.7	1.9	2.1
Machinery and transport equipment...	5.2	5.6	6.1	7.1	8.0	7.7	7.3	7.9
Other manufactures and base metals...	5.0	5.8	6.4	6.7	7.5	6.9	6.6	7.2
Commodity exports from developing countries to developing countries, total.....	4.8	4.9	5.3	5.5	5.9	5.5	5.7	6.0
Of which:								
Food-stuffs .....	1.0	1.1	1.2	1.3	1.4	1.4	1.4	1.5
Agricultural raw materials and ores...	1.1	1.1	1.2	1.1	1.1	1.0	1.1	1.1
Fuels .....	1.7	1.9	2.1	2.2	2.3	2.2	2.2	2.3
Manufactures and base metals.....	0.8	0.9	0.9	1.0	1.1	1.0	1.0	1.2

Source: Bureau of General Economic Research and Policies of the United Nations Secretariat. The estimates for "imports of goods and services" are based on national income accounts of the constituent countries. The time series of commodity exports from the rest of the world as well as those of the intra-trade are based on figures shown in

tables 28 to 41 of United Nations, "Handbook of International Trade Statistics" (mimeographed document E/CONF.46/12/Add.1).

<sup>a</sup> Estimates exclude imports of crude oil into the Netherlands Antilles.

Table 3A-2. Developing Countries: Estimates of Gross Domestic Product and Gross Domestic Fixed Capital Formation by Regions, 1950-1960 in 1960 Prices and Exchange Rates

(Billions of dollars)

Item	1950	1951	1952	1953	1954	1955	1956	1957	1958	1959	1960
Gross domestic product, total.....	110.3	115.2	119.8	125.3	132.7	137.9	143.3	149.7	155.7	160.8	169.8
Of which:											
Latin America .....	39.2	41.6	42.8	43.8	47.0	49.4	51.1	54.9	56.8	58.3	61.4
Africa .....	18.1	19.1	20.0	20.6	21.8	22.3	23.4	24.1	25.1	25.9	27.0
Far East .....	45.2	46.8	48.7	51.9	54.2	55.9	58.0	59.6	62.0	64.1	68.3
West Asia .....	6.6	6.4	7.0	7.6	8.2	8.7	9.0	9.2	9.8	10.4	10.9
Others .....	1.2	1.3	1.3	1.4	1.5	1.6	1.8	1.9	2.0	2.1	2.2
Gross domestic fixed capital formation, total .....	15.7	17.1	17.6	18.1	19.9	21.5	22.7	24.4	24.8	25.2	26.9
Of which:											
Latin America .....	6.6	7.1	7.4	7.4	8.4	8.8	9.0	9.5	9.7	9.5	10.1
Africa .....	3.0	3.3	3.3	3.5	3.5	3.8	3.9	3.8	4.0	4.1	4.5
Far East .....	5.2	5.6	5.8	6.0	6.6	7.3	8.0	8.9	8.7	9.0	9.8
West Asia .....	0.6	0.7	0.7	0.8	0.9	1.1	1.3	1.4	1.6	1.8	1.9
Others .....	0.3	0.4	0.4	0.4	0.5	0.5	0.5	0.8	0.8	0.8	0.6

Note: The above figures are preliminary crude estimates prepared by the Bureau of General Economic Research and Policies of the United Nations Secretariat. For a detailed account of sources and methods used, see United Nations, *Studies in Long-term Economic Projections for the World Economy: Aggregative Models*.

The hypothetical level of commodity imports for 1970 shown in row 2 of table 3-1 has been obtained by using the above historical relations in conjunction with the hypothetical levels of gross domestic product and gross domestic fixed capital formation of \$277 billion and \$49 billion, respectively.<sup>c</sup>

b. *Commodity exports to the rest of the world*

Exports to the rest of the world are divided into two broad categories: exports to the centrally planned economies and exports to the developed market economies. Projections of the first category are based on the over-all trade turnover targets of the centrally planned economies, as ex-

<sup>c</sup> The level of gross domestic fixed capital formation in 1970 has been obtained from regional capital stock-output ratios. See forthcoming issue of *Studies in Long-term Economic Projections for the World Economy: Aggregative Models*.

plained in the discussion earlier. Projections of the second group of exports are based on demand functions of the developed market economies for such exports. The derivation of the demand functions has been based upon the simplifying assumption that the level of aggregate income of the developed market economies is the only explanatory variable of commodity imports from the developing countries. The curve fitted by the method of least squares to the data for the period 1950-1961 is of the following form:

$$x_i = a_i + b_i y$$

where  $x_i$  is the logarithm of imports of the  $i^{\text{th}}$  commodity group and  $y$  the logarithm of gross domestic product of the developed market economies. All variables are measured in millions of dollars in 1960 prices and exchanges rates.<sup>d</sup>

The results obtained are as follows:

<sup>d</sup> Rounded figures of these series in billions of dollars are shown in table 3A-3.

Dependent variable	Constant term $a_i$	Slope of the double log regression $b_i$	Coefficient of determination
Food-stuffs (SITC 0 + 1) .....	-1.14069	0.83 (0.088)	0.899
Agricultural raw materials and ores (SITC 2 + 4) .....	0.12344	0.61 (0.111)	0.752
Fuels (SITC 3).....	-11.04472	2.47 (0.088)	0.987
Manufactures and base metals (SITC 5-8)....	-4.95620	1.39 (0.28)	0.775

With the exception of the demand for fuels, the above equations have been used to derive the hypothetical level of imports (f.o.b.) of the developed market economies from developing countries as shown in row 3.a of table 3-1. The unusually high elasticity of imports of fuels reflects to some extent the occurrence of non-economic disturbances. Thus, the hypothetical projection shown in table 3-1 is based on the assumption that the future income elasticity of fuel imports would be 1.40 rather than 2.47. The former figure is implicit in United Nations, *Economic Survey of Europe in 1960* (Sales No.: 61.II.E.1). The common independent variable of the above regressions, that is, the gross domestic product of the developed market economies, is assumed to grow at an annual compound rate of 3.7 per cent.

c. *Estimation of the hypothetical level of net payments for investment income and other services*

The figure shown in row 4 of table 3-1 is the net sum of three components, that is, net payments for investment income, gross receipts for services other than investment income and gross payments for services other than investment income.

Net payments for investment income are assumed to be proportional to the level of commodity exports to the rest of the world. The same crude assumption is used for calculating gross receipts for services other than investment income which consist mostly of receipts from tourism and port services. The proportions used in this exercise, derived from recent observed trends, are as follows:

Region	Assumed ratio of investment income (net) to commodity exports to the rest of the world (percentage)	Assumed ratio of gross receipts for services other than investment income to commodity exports to the rest of the world (percentage)
Latin America .	19.6	15.5
Africa .....	14.0	8.7
Far East .....	6.0	7.0
West Asia .....	20.0	—
Others .....	7.0	—

Gross payments for services other than investment income consist mostly of transport cost and insurance payments. This item has been derived as a residual after subtracting from the hypothetical level of imports of goods and services of the regions (see section II of this appendix), the calculated level of intra-trade (see section II) and the commodity imports from the rest of the world as shown in row 2 of table 3-1.

## II. DISTRIBUTION OF THE HYPOTHETICAL GAP AMONG THE REGIONS

The gross domestic product of the developing countries is assumed to increase at an average annual compound rate of 5 per cent in the period 1960-1970 as a whole. If it is further assumed that the regional distribution of the gains resulting from the acceleration of growth would be proportional to the hypothetical share of each region's gross domestic product to the total should past trends continue, the regional breakdown of the gross domestic product in 1970 would be as follows:



Region	1960		1970	
	Gross domestic product in billions of dollars (observed)	Percentage of total	Gross domestic product in billions of dollars (hypothetical)	Percentage of total
Latin America .....	62	36.5	104	37.5
Africa .....	27	16.0	42	15.2
Far East .....	68	40.0	106	38.3
West Asia .....	11	6.5	20	7.2
Others .....	2	1.0	5	1.8
Total developing countries .....	170	100.0	277	100.0

Table 3-1 (row 5) provides crude estimates of the distribution of the over-all gap under the hypothesis that the above-shown breakdown of total gross domestic product would hold. Quite apart from the arbitrariness of this hypothesis, it should also be emphasized that the hypothetical figures of regional deficits on current account have been derived on the basis of even more crude and aggregative relations than those employed for calculating the over-all gap. The crude techniques used to derive these hypothetical figures are shown below.

a. *Estimation of import requirements for goods and services by regions*

Owing to the paucity of available statistics, the estimation of import requirements by regions could not be done on the basis of even large commodity groups as in the case of the over-all gap. At present, the only available comprehensive, albeit preliminary, series of imports refer to "imports of goods and services" derived from national income accounts of the constituent countries (*see* table 3A-1). It should be noted that these series include imports from all sources, including trade among the developing countries.

For the purposes of this exercise, it is assumed that these imports are determined by the level of the regional gross domestic product in the following form:

$$M_r = a_r + b_r Q_r$$

where  $M_r$  is the level of imports of goods and services and  $Q_r$  is the gross domestic product of the  $r^{\text{th}}$  region. Both variables are measured in millions of dollars in 1960 prices and exchange rates. The numerical values of the coefficients  $a_r$  and  $b_r$ , the standard error of  $b_r$  (shown in parentheses) and the coefficient of determination of the regional regressions covering the period 1953-1960 are given below:

Region	Constant term $a_r$	Slope $b_r$	Coefficient of determination
Latin America .....	861	0.15 (0.032)	0.776
Africa .....	-2,592	0.36 (0.030)	0.960
Far East .....	-1,897	0.18 (0.046)	0.711
West Asia <sup>a</sup> .....	-1,650	0.44 (0.014)	0.994
Others <sup>b</sup> .....	-223	0.57 (0.052)	0.953

<sup>a</sup> The estimates for 1970 derived from this equation have been increased by 3.2 per cent in order to cover that part of total imports for which data for the whole period 1953-1960 are not available.

<sup>b</sup> These series of imports do not include imports of crude oil into the Netherlands Antilles. These imports, which are re-exported after processing, have been estimated to reach the level of \$915 million by 1970. The latter figure was included in the calculation of total imports of this region.

Since the fulfilment of the hypothetical target would require a proportionately faster increase in supplies of capital goods than in total output—and since a substantial part of these supplies would have to be imported—it is obvious that the above aggregate relationships, derived from the assumption that the gross domestic product is the only explanatory variable, would tend to underestimate the level of total import requirements. In order to avoid gross underestimation of the import requirements, a conjectural figure has been added to the hypothetical level of imports of each region derived from the above equations. The correction factor equals the product of the regional marginal propensity ( $b_r$ ) and the difference of investment requirements implied in the hypothetical target of output and in simple extrapolation of past trends of output. The sum of these adjustments for the component regions amounted to \$1.8 billion in 1970.

b. *Distribution of world exports of developing countries by regions of origin*

The world exports of each region are divided into three groups: commodity exports to developed market economies, commodity exports to centrally planned economies and commodity exports to developing countries (intra-trade).

The first two categories of exports are discussed above in connexion with the over-all gap. It should be recalled that the hypothetical level of these exports has been assumed to be determined by exogenous factors, such as economic activity abroad and trade policies. It is quite clear that the distribution of these exports by regions of origin would call for a detailed evaluation of the potential supplies in each region and the region's competitive strength vis-à-vis other competing sources. At the present level of country aggregation, however, it is not possible to infer a hypothesis of this nature. Thus, for purposes of this exercise, it is assumed that the historical shares of each region to the total exports of the developing countries would hold in the future. Table 3A-4 shows the weights used for distributing total exports by regions of origin.

The third source of current receipts, that is, exports to developing countries, is a factor which has not been used for calculating the over-all gap. Clearly, when all developing countries are taken as a single economic unit, trade among the constituent countries ceases to be a genuine external trade variable. But projections at the regional level must necessarily make some allowance for this trade. As was noted earlier, the regional import functions include imports from developing countries. Similarly, on the export side it is assumed that the exports to developing countries are determined by the level of total gross domestic product

Table 3A-3. Developed Market Economies: Imports (f.o.b.) from Developing Countries and Gross Domestic Product, 1950-1961, in 1960 Prices and Exchange Rates  
(Billions of dollars)

Item	1950	1951	1952	1953	1954	1955	1956	1957	1958	1959	1960	1961
Commodity imports (f.o.b.) from developing countries, total .....	13.3	13.3	13.0	14.5	14.9	15.8	17.0	17.1	17.5	18.9	19.7	20.4
Of which:												
Food-stuffs .....	4.5	4.7	4.5	5.3	5.0	5.3	5.8	5.6	5.8	6.1	6.2	6.0
Agricultural raw materials and ores .....	4.9	4.5	4.4	5.1	5.1	5.3	5.5	5.3	5.3	5.8	5.7	6.0
Fuels .....	2.0	2.4	2.5	2.7	3.0	3.4	3.7	3.9	3.4	4.7	5.2	5.6
Manufactures and base metals .....	1.6	1.6	1.4	1.4	1.6	1.8	1.8	2.0	2.0	2.3	2.5	2.7
Gross domestic product .....	621.8	665.3	693.4	724.4	729.7	782.1	807.9	832.0	831.5	883.0	920.1	951.4

Source: The series of commodity imports are derived from table 41 of United Nations, "Handbook of International Trade Statistics". Estimates of gross domestic product have been prepared by the Bureau of General Economic Research and Policies of the United Nations Secretariat on the basis of United Nations, *Yearbook of National Accounts Statistics* and national sources.

of the group as a whole.<sup>a</sup> The projected hypothetical level of the intra-trade obtained on the basis of historical relation-

<sup>a</sup> The numerical results of linear regressions of commodity exports on gross domestic product of the developing countries for the period 1953-1960 are as follows:

<i>Dependent variable</i>	<i>Constant term</i>	<i>Slope</i>	<i>Coefficient of determination</i>
Food-stuffs (SITC 0 + 1)	-230	0.010 (0.00148)	0.891
Fuels (SITC 3).....	441	0.011 (0.00271)	0.743
Manufactures and base metals (SITC 5-8).....	83	0.006 (0.00119)	0.809

The intra-trade of agricultural raw materials and ores has followed a rather erratic pattern during the past decade. For the purposes of this exercise, it is estimated that the level of these exports would reach \$1.6 billion by 1970.

ships was distributed among the regions according to the past shares of each region to total intra-trade. The weights used for the distribution of intra-trade by regions of origin are shown in table 3A-4.

c. *Estimation of net payments for investment income and (gross) receipts for services other than investment income by regions*

The algebraic sum of the projections based on the relationships described above would give the regional balance of merchandise trade plus gross payments for services. For estimating the hypothetical balance of payments on current account by regions, two more items need to be added, namely, net payments for investment income and gross receipts for services other than investment income. These items have been calculated on the basis of the assumed relations between such payments and receipts and the volume of exports as shown in section I.c above.

Table 3A-4. Percentage Distribution of World Exports from Developing Countries by Regions of Origin

Item	Total exports	Exports of			
		Food- stuffs	Agricultural raw materials and ores	Fuels <sup>a</sup>	Manufactures and base metals
Percentage distribution of exports to:					
Developed market economies by regions of origin:					
Latin America .....	...	53.7	25.4	28.3	19.2
Africa .....	...	24.0	29.6	a	16.6
Far East .....	...	16.2	38.5	5.2	53.7
West Asia .....	...	1.9	2.4	52.2	7.8
Others .....	...	4.2	4.5	14.3	2.7
Centrally planned economies by regions of origin:					
Latin America .....	25				
Africa .....	31				
Far East .....	38				
West Asia .....	6				
Developing market economies by regions of origin:					
Latin America .....	...	23.6	11.4	43.2	7.3
Africa .....	...	17.5	18.7	0.6	11.0
Far East .....	...	51.9	65.6	13.2	72.4
West Asia .....	...	5.1	3.1	32.6	6.6
Others .....	...	1.4	1.2	10.4	2.7

<sup>a</sup> On the basis of recent indicators, it is assumed that exports of fuels from Africa to the developed market economies would reach \$1 billion by 1970. The rest of the hypothetical level of fuels is distributed among the other regions according to the historical shares shown above.

## Chapter 4

# INTERNATIONAL TRADE AND ITS RELATION WITH NATIONAL DEVELOPMENT PLANNING, POLICIES AND INSTITUTIONS

The search for ways and means of adapting international economic relations more closely to the needs of the developing countries is a major issue in world policy forums. Actuating this search is a profound concern with the economic development of these countries, coupled with a recognition of the substantial influence which international trade and payments bring to bear on their internal economic growth.

The present chapter focuses on this link between national economic development and international economic relations. It attempts to trace the main interrelations that exist between the domestic and international economies, to describe the difficulties which

arise for national economic development out of these interrelations and to indicate briefly some of the national and international policies whose pursuit can help to lessen these difficulties. These problems and policies have been considered within the framework of development planning in the developing countries, and reference has accordingly been made, wherever relevant, to the views expressed on planning for economic development by the expert group appointed by the Secretary-General of the United Nations.<sup>1</sup>

<sup>1</sup> United Nations, "Planning for Economic Development", Report of the Secretary-General transmitting the study of a group of experts (Sales No.: 64.II.B.3).

## The importance of foreign trade for economic development

In recent years, the developing countries have been turning increasingly to economic and social planning in their endeavour to sustain or accelerate their domestic growth. In framing their policies for development, Governments in these countries have generally been strongly impressed by the need for public action designed to achieve the long-range aim of sustained economic growth. In some part, the poor performance of the export trade of developing countries in the post-war years has contributed to the realization of the need for more vigorous central action. Post-war experience has virtually laid rest to the more sanguine view—which was often held in earlier decades—that specialization in primary production would generally serve, through foreign trade, as a powerful engine of domestic economic growth. But of even greater importance has been the recognition that these countries have inherited from the past many social and economic rigidities which are often too deep-seated to be overcome by market forces alone. For such reasons, Governments have come to assume a leading role in economic and social life, and they have turned increasingly to planning as a guide in evolving their most effective lines of action. Thus, the marked spread in utilization of planning methods has reflected the desire to deal with the problems and tasks

of economic development more effectively. Not least of these problems are the difficulties created for these countries by the long-standing dependence of their economies on developments in foreign trade.

The analysis of world trade in post-war years has left no doubt that the dependence on exports of primary commodities gives rise to a particularly disadvantageous pattern of behaviour in the foreign exchange earnings of most of the developing countries. Not only does such dependence expose these countries to unusually large short-term variations in their earnings but it also results in a relatively sluggish rate of growth in earnings.

These characteristics of the export trade of developing countries, together with a more detailed exposition of their causes, are described at greater length in chapter 1. It need only be recalled here that while the total exports of all market economies<sup>2</sup>—expressed in terms of volume—advanced at an annual rate of 5.6 per cent between 1950 and 1961, total exports of the developing countries increased annually by only 3.6 per cent; and the expansion in their exports was accompanied by a deterioration in their terms of trade over the same period of

<sup>2</sup> This excludes the centrally planned economies.

about 10 per cent. These figures, moreover, relate to total exports, including petroleum. Over the same period, the volume of petroleum exports from developing countries to all market economies<sup>3</sup> rose at an annual rate of 7.1 per cent while their prices were relatively stable. Excluding petroleum—the exports of which are confined to a few developing countries—the volume of exports from developing countries to all market economies<sup>3</sup> increased annually by only 2.5 per cent. Superimposed upon this sluggish trend have been violent short-term fluctuations in export receipts, which, on the average, have been in the region of 9 to 12 per cent per year during post-war years.<sup>4</sup>

Though the disadvantageous pattern of behaviour in export earnings of most developing countries has come to receive very wide recognition, there is perhaps less general appreciation of its full significance for economic development. In earlier decades, analysis of the relation between export earnings and domestic economic activity turned mainly on the role played by rising export incomes in stimulating the growth of domestic income and output. In the past, the main stimulus to growth of domestic income and output often originated, not in the domestic sectors of the economy, but in the external sector; if foreign demand failed to expand, its depressing effect was transmitted through the external sector to the whole domestic economy. The direct influence of changes in export incomes on the current level of domestic output and on the inducement to invest in production for the domestic market is still a powerful factor in many developing countries today, particularly among those in which the export sector bulks large in the economy. However, because of the more active role which Governments have assumed in seeking to stimulate production and investment for the domestic market, the role of export incomes in determining the movement of aggregate domestic demand has generally ceased to be of such exclusive importance as in the past.

The intensification of efforts to generate internal sources of growth, however, has not lessened the strategic role of the foreign trade sector. On the contrary, this has brought to the fore another crucial link between the foreign trade sector and domestic economic development. With the expansion of domestic demand being supported by governmental action, attention has shifted to the role played by imported supplies in facilitating growth. Even where the export sector has ceased to be a primary source of stimulus to the growth of domestic income and

output, the task of raising domestic production and investment has none the less continued to depend substantially on the ability to obtain increasing supplies of imports.

In the developing countries, there has generally been a tendency for imports to advance strongly as development programmes have got under way. In the period between 1950 and 1960, for example, the volume of goods imported by these countries—taken as a group—increased at a higher annual rate than their total domestic production; while gross domestic product grew at an annual rate of 4.4 per cent, merchandise imports increased by 4.6 per cent per year. Underlying this tendency has been a shift in the composition of domestic demand towards the kinds of manufactures and materials which these countries have been least well equipped to produce. In most countries, a major element in this shift has been the increase in the share of investment in total expenditure. Since these countries are largely deficient in the engineering and metal-working industries producing capital goods, the import content of domestic investment is usually high; in recent years, it has typically been in the region of 25 to 40 per cent. Consequently, the shift in domestic demand towards investment has led to a strong increase in import demand for investment goods. At the same time, the industrial and agricultural growth ensuing from development programmes has created new demands for intermediate goods and raw materials, some part of which has had to be met from foreign sources of supply. Further, in food-deficit countries, both economic and population growth have tended to heighten demand for imported supplies of food. On the one hand, the extremely low levels of per capita income combined with rapid population growth give rise to relatively high rates of growth in total demand for food as national income rises. On the other hand, by virtue of the inflexibility of agricultural output which arises from the social and economic backwardness of the rural areas in many countries, the prompt expansion of domestic food production at a rate sufficient to meet increasing domestic requirements presents particular difficulties. These circumstances, taken together, have strengthened demand for imported supplies of food.

It is important to appreciate that this tendency for many classes of imports to advance strongly arises essentially out of the character of the productive structures which the developing countries have inherited from the past. It cannot be simply explained as a consequence of aggregate demand advancing too rapidly in relation to aggregate supplies. Of course, inflationary pressures have been present in many developing countries at one period or another; frequently, investment programmes have outreached the capacity of the economy to save or its ability

<sup>3</sup> Excluding exports to centrally planned economies for which quantum data are not available on a comparable basis.

<sup>4</sup> This range of fluctuation has been calculated after removal of trend by different methods.

to obtain supplies of foreign capital. But, even where efforts to maintain a dynamic balance between aggregate saving and investment have met with success, the problem created for the external balance by rising import demand in the face of sluggish export growth has persisted.

The fact is that the structural rigidities in the economies of developing countries prevent the rapid adaptation of output to the changing composition of domestic demand. Adaptation of the level and composition of supplies to changing requirements is, of course, a central task of development programmes. But it would be quite unrealistic to suppose that this is a process which can be achieved with equal ease and speed in all lines of production. There are sectors or branches of production, such as agriculture or the heavy engineering industries, whose output in the immediate future is, so to say, supply determined rather than demand determined; output cannot respond readily to the growth of domestic demand but is dependent on the prior transformation of supply conditions. Consequently, if requirements for the products of such sectors cannot be imported in the requisite quantities, the rate of growth of the economy as a whole may be slowed down.

By virtue of the economic structure of developing countries, imbalances between domestic output and requirements are almost bound to be accentuated as development programmes get under way; and it is only through an adequate rate of growth in the capacity to import that the constraint on growth imposed by these imbalances or structural rigidities can be lessened. Of course, development programmes have to submit to the discipline of external as well as of internal balance. Not only should a dynamic balance be maintained between investment and saving, but the rising import requirements generated by development plans or programmes should also not exceed the growth in foreign exchange receipts derived from export earnings and from net inflows of foreign loans and grants. If, however—as has been the case for most developing countries—the rate of growth in foreign exchange receipts is relatively slow, then the need to safeguard the external balance becomes, in itself, a principal factor circumscribing the rate of domestic economic growth. It is primarily for this reason that so many developing countries have expressed deep concern about current trends in world demand for their exports and have emphasized the need for more liberal commercial policies on the part of developed countries and for an expanding volume of foreign aid.

## The task confronting the developing countries

### GENERAL DEVELOPMENT POLICIES

It is clear that, within the foreseeable future, trends in the foreign trade sector will continue to be of crucial importance for the rate of economic growth which each developing country can hope to achieve. But this certainly does not mean that the rate of growth in these countries is simply determined by developments in the foreign trade sector. Even if a country is fortunately placed with regard to the growth of its export earnings or its receipts of foreign capital, this alone is obviously no assurance that an adequate pace of domestic economic development will be established. On the other hand, if a country pursues effective policies for development, much can be done to accelerate domestic economic growth even in the face of limited prospects for expanding foreign exchange receipts. Each developing country, in other words, must seek to ensure that it utilizes its available resources to the best possible advantage.

In numerous developing countries, the tasks which confront them in seeking to develop their economies go well beyond programmes of a specifically economic nature. The social framework inherited from the

past, and within which economic activity is conducted, has often not been conducive to economic progress. Considerations of social equity and stability alone may argue for reform of the existing social structure, but appropriate reforms have also been indicated as a necessary condition of the achievement of adequate and sustained rates of domestic economic growth. In the broadest terms, this means that the social barriers which discourage efforts throughout the country to raise productivity have to be broken down. Such barriers have many different sources; they may arise, for example, out of the ignorance and illiteracy of the mass of the population or out of the extreme concentration of wealth in the hands of a few. Among the most common of the concrete forms which such barriers take has been an inequitable system of land ownership and land tenure; and many developing countries have been taking steps to reform the prevailing system, not solely for reasons of equity, but also to strengthen the incentive of agricultural producers to increase output. Measures of this nature—not only of land reform but also for the more equitable distribution of income and wealth in general and for mass education—cannot be considered as irrelevant to policies of economic

development but contribute heavily to the growth of viable economic systems.

There is no clear line of division between general policies designed to create an appropriate social milieu for development and measures of a more directly economic nature. Broad educational programmes, for instance, intended to lessen illiteracy and ignorance, merge into more specific programmes for increasing the supply of human skills needed for the operation and management of new productive units. It is obvious, however, that broad social policies must be complemented by many measures of a directly economic character.

Within the more strictly defined sphere of economic activity, one of the most important characteristics of under-developed countries is their relatively small capital stock. Given the importance of investment for economic growth, a major obligation of Governments in these countries has been to introduce measures calculated to raise the level of domestic investment and saving. In some countries, this has been partly a problem of strengthening the inducement to invest in the private sector. Governments have generally sought to stimulate investment by such measures as the provision of adequate basic facilities and improved credit facilities and the use of tariffs and import controls to create a sheltered market for domestic producers. Generally, however, the problem of stimulating investment in the private sector has been a less difficult task than that of raising the level of saving in order to permit a larger volume of total investment; this is particularly true of those countries where the Governments themselves have been prepared to undertake new projects in the productive sectors of the economy wherever private initiative has not been forthcoming.

In many developing countries, little, if any, progress was made during the past decade in raising the level of domestic saving.<sup>5</sup> Since, in these countries, reliance has to be placed primarily on increases in public saving to effect substantial changes in the proportion of total income that is saved, the disappointing past behaviour of total domestic saving is mainly ascribable to trends in public revenue and expenditure. Nevertheless, there does appear to be increasing recognition of the importance of the public sector in raising total domestic saving. To quote from the report of the Group of Experts on Planning for Economic Development: "Increases in public saving have been a key element in most development plans. The widespread emphasis on a greater government contribution to total saving may be partly a belated recognition of the inadequate levels of public saving in recent years. During the nineteen fifties, for ex-

ample, the ratio of public saving to national product in most under-developed countries increased either very slightly or not at all. In large measure, this resulted from the rapid increases in government consumption generated by the process of economic and social change."<sup>6</sup>

Recent plans of a number of developing countries imply that programmes of current public expenditure are to be scrutinized more closely in an effort to improve the public accounting of funds, increase administrative efficiency, and slow down the rate of growth in non-essential expenditure. However, the scope for limiting the growth in current expenditure has often been circumscribed. Among the newly independent countries, there has frequently been a need to strengthen existing administrative services. More generally, it has often been found necessary to expand existing governmental services, or to provide new services, in support of programmes for economic development. For such reasons, the expansion of public saving in developing countries, while it can be materially enhanced by efforts to increase efficiency in government, generally has to rely mainly on the measures taken to increase public revenue.

In most developing countries, the tax structure prevailing in the past has not been such as to assure an acceleration in the growth of public revenue as national income has risen. A large proportion of tax revenue has generally been derived from import and export duties; and receipts from these taxes have accordingly depended on trends in foreign trade and, more specifically, in trade of dutiable imports and exports. Heavy reliance on export and import duties has also meant that the short-term instability of the external sector has been transmitted directly to tax revenue.

There has thus generally been a need to increase revenue from other sources both to raise the level of total revenue and to stabilize receipts. Direct taxation of personal incomes, has, for example, often been neglected as a fiscal instrument. There has frequently been scope for the introduction of greater progressivity in the rates of income tax without serious impairment of incentives to work or save. The tax base, moreover, has often been relatively narrow, the level of income at which taxes become payable being set at a comparatively high figure. A broadening of the tax base and greater progressivity in tax rates could considerably enhance the effectiveness of personal income taxes in many countries. However, it has to be recognized that, in developing countries, there are generally major practical limitations on the extent to which total public revenue can be raised

<sup>5</sup> See United Nations, *World Economic Survey, 1959* (Sales No.: 60.II.C.1), chapter 2.

<sup>6</sup> United Nations, "Planning for Economic Development" (mimeographed document E/CONF.46/28), paragraph 139.

by means of these taxes. The incomes of most of the population are extremely low and are often received in kind rather than cash. Even where incomes are monetized and are at a level which might attract tax, there are frequently no records of income payments which might be utilized to prevent tax evasion. Tax administrations, in any case, are frequently weak and lack the resources to prevent extensive tax evasion under existing income tax laws.

By comparison with personal income taxes, the direct taxation of company incomes is much easier to administer in developing countries. No doubt partly for this reason, company taxes have been less neglected as a means of raising revenue and there may be rather less scope for further increasing revenue from this source, given the small scale of output and the prevailing low levels of productivity. Moreover, the active use of measures of relief from taxation to encourage investment in export-promoting or import-substituting industries also limits the increases in revenue that can be obtained from this form of taxation.

A more promising source of new revenue has been the imposition of additional indirect taxes on domestic production and sales. With the growth of domestic economic activity, there has been considerable scope for the enlargement of revenue through the imposition of taxes on domestically produced commodities. If such taxes bear particularly on less essential goods, they need not be unduly regressive in effect. In many countries, the agricultural sector also offers possibilities for the enhancement of tax receipts. Land assessments have often not been revised for many years, and they do not reflect the increases in capital values that have resulted from improvements in irrigation, transportation and similar changes. The revision of assessments, together with an appropriately devised system of land taxes, could increase tax receipts. Finally, it should not be forgotten that the pricing policies pursued with regard to public utilities constitute another important element of fiscal policy. The prices charged for public services have frequently not been adjusted in line with the trend in prices throughout the economy as a whole; while charges for certain services may have to be kept relatively low in order to provide an incentive to private investment, unduly low prices may defeat the general aim of fiscal policy to raise public saving.

#### DEVELOPMENT PLANNING AND THE EXTERNAL BALANCE

As suggested above, even the most vigorous efforts to raise the level of domestic saving and to accelerate economic growth may fail to evoke commensurate advances in the volume of investment and output if

the supply of foreign exchange proves to be insufficient to finance rising import requirements. In formulating development plans, it is not enough to ensure that the planned level of investment will be matched, at prevailing prices, by the prospective supply of saving; among other things, it is also essential to consider whether the import requirements arising out of the plan can be met by the likely supply of foreign exchange.

To reconcile the necessity of maintaining external balance with the desire to accelerate domestic growth, the most careful consideration has to be given to the future patterns of domestic investment and output. Through appropriate adaptation of this pattern, the constraint imposed on the rates of domestic growth by the need to maintain external balance can be lessened. It cannot be pretended that, in the actual process of planning in developing countries, it is in any way an easy task to determine this optimum pattern of investment and output. Not only are there major uncertainties surrounding future developments in the external sector, but there is also a dearth of knowledge in most countries about the possible trends in domestic demand, production and import requirements of specific sectors. In practice, decisions about the pattern of investment and output which is appropriate in the light of prospective trends in foreign exchange supplies and import requirements have usually to be based on partial analysis.

The difficulties and uncertainties surrounding the task, however, do not lessen its importance. It is not only that over-all targets may prove unrealistic if insufficient attention is paid to the external sector; much more important is the fact that careful scrutiny of plans in the light of the constraint imposed by the external balance may suggest a different system of investment priorities than originally envisaged. If the initial targets set for the rate of growth in total output and for investment appear likely to generate increases in import requirements exceeding the supply of foreign exchange, the pattern of investment has to be reconsidered in order to give greater emphasis to the development of import-substituting or export-promoting activities.

Among the developing countries, plans have generally been directed more to the development of import-substituting than of export-promoting activities. This, it will be understood, has not implied any trend towards autarky. The pursuit of policies to protect the domestic market and thereby to encourage the growth of import-substituting activities has been an important means of raising levels of investment and output in developing countries. But the intent has obviously not been to limit total imports as an end in itself; it has been rather to change the composition of imports. Like export promotion, import



substitution has been a means of increasing the capacity to import capital goods required for economic growth. The savings from import substitution have not been used to accumulate foreign exchange but rather to finance the imports of more essential goods that could not be produced at home. In part, the greater emphasis on import substitution has reflected the fact that it has frequently constituted the more efficient means of increasing the requisite imported supplies, especially at an early stage of development. Import substitution, however, has also usually appeared to be more feasible since it encounters fewer obstacles than the creation of an export trade. The development of an export trade in manufactures not only means that products have to be successfully adapted to the requirements of foreign markets; it also means that costs have to be lowered sufficiently to surmount the tariff barriers erected by commercial policies.

In all developing countries, there have been many opportunities for the replacement of imports through the establishment of new industries, but in many, substantial scope for import substitution has also existed in primary production. Where it has appeared feasible to replace imports of food, fuels and raw materials by domestic production, the grounds for stimulating output have been no less strong than in the case of industrial production. Obviously, the natural resource endowment of individual countries limits the range of primary commodities which they can produce or may render some lines of production unduly costly. And, as industrialization progresses, countries generally find that they have to import a widening group of primary commodities. However, in view of the very low levels of productivity prevailing in the agricultural sector of most developing countries, it is generally possible to limit imports of food or raw materials through the application of additional resources to the agricultural sector; and greater domestic production of such goods can release foreign exchange for imports of goods whose current domestic production appears less feasible and more costly.

It has to be recognized, however, that there are limitations arising from the supply side to the rate of growth in agricultural output which can be achieved within the period of a medium-term plan. Reference has already been made to the issue of the adequacy of the system of land ownership and tenure. Extensive programmes of land reform, however, take time to implement and, in themselves, only provide a framework within which sufficient incentives for agricultural producers can be developed. Bound up with the problem of adequate incentives, there is, moreover, the slow and difficult task of encouraging peasants to adopt more modern techniques of farming. The application of more

advanced techniques is also dependent on the rate at which the agricultural sector can be supplied with an expanding volume of such inputs as fertilizers, improved seeds, irrigation works and agricultural implements; and increases in the supply of at least some of these inputs require that additions to industrial capacity be made. For such reasons, the transformation of the rural economy into a modern sector of production is necessarily a gradual process. And this means that the rate of growth in agricultural production cannot always be readily adapted to plan requirements with regard to import substitution of food and raw materials.

It is more often in the field of industrial production that substantial savings in foreign exchange can be readily effected through import substitution. Among developing countries at the very early stages of industrialization, there has generally been a considerable range of new projects which can be established and brought into operation quite quickly, yielding savings in imports within the period of a medium-term plan. In the course of the past decade, for example, there was a general tendency among the less industrialized countries in the developing areas to record fairly rapid rates of expansion in output of non-durable consumer goods industries and certain intermediate producer goods industries, such as the cement and fertilizer industries. Although part of the increase in domestic output was absorbed in meeting the expansion of domestic demand, a large proportion went to the replacement of current imports of these goods. Thus, a substantial amount of foreign exchange generally became available for imports of other classes of goods through this process. It has been estimated, for instance, that in a number of developing countries, the growth in output of consumer goods and intermediate goods industries during the nineteen fifties yielded net savings in foreign exchange equivalent to 50 per cent or more of the value of capital goods imported in the early part of the decade.<sup>7</sup>

As developing countries become relatively more industrialized, the scope for the development of import-substituting industries in the field of consumer goods or selected intermediate goods tends to diminish. In the initial phases, industrialization has tended to concentrate on the development of consumer goods and certain intermediate goods industries and their output has usually expanded much more rapidly than domestic demand. Once imports have been largely replaced, however, the scope for further rapid growth of output diminishes and the rate of expansion becomes limited by the pace of growth of domestic demand. In the course of the nineteen fifties, for example, in such more indus-

<sup>7</sup> See United Nations, *World Economic Survey, 1961* (Sales No.: 62.II.C.1), chapter 1.

trialized countries as Brazil, India and Mexico, the role of such import-substituting industries in the growth of total industrial output became much less important than it is in other less industrialized countries. The pattern of industrial development, in other words, tended to shift towards producer or durable goods industries, such as the metallurgical and engineering industries. The growth of these industries has meant that imported supplies of capital goods can be augmented by domestic output. The longer gestation period of most capital goods industries does, however, limit the increases in output that are likely to be obtained within the period of a medium-term plan from the investment made in these industries during the same plan period.

In many branches of the engineering and heavy goods industries, relatively long periods of time elapse between the decision to establish the branch and its entry into full production. The period of construction for individual plants—as, for example, a steel mill—is often lengthy. Once established, their entry into full operation is frequently impeded by the need to train the work force in an entirely new range of technical and managerial activities. The creation of such industries, moreover, is generally not simply a matter of the erection of individual plants but rather consists in the development of whole complexes of interrelated plants; and production in individual plants can thus be held up by delays or difficulties in the establishment of ancillary industries.

For these kinds of reasons, investment in such industries may, within the period of a medium-term plan, fail to augment appreciably the domestic supply of capital goods, and may thereby contribute little towards relieving the pressure on the external balance. Indeed, since such investment generally requires substantial imports of machinery and equipment, it may well, on the whole, constitute an added burden on the external balance during the course of a medium-term plan. This is to be compared with investment in light industries which can usually be established and brought into production more speedily and which can therefore be counted upon to provide an earlier saving in imports.

The longer gestation periods of many branches of the engineering and heavy goods industries is no argument against initiation of their development. But it does mean that the investment programmes of the more industrialized of the developing countries may offer less immediate relief to their external balance by way of import substitution than is usually the case among the less industrialized countries. It also stresses the importance, for the less industrialized countries, of initiating the development of such industries well before the time when the economy is actually likely to require domestic production of capital goods.

In other words, investment plans should be drawn up, not only in the light of requirements for output over the course of the medium-term plan, but also in the light of the longer-term requirements of the economy; for the products of industries with long gestation periods, it is important that long-term projections of future domestic requirements be made before current investment plans are decided upon. Failure to do so may mean that, at some time in the future, an additional burden is thrown on the external balance by the absence of expanding domestic industries; and the rate of growth may be slowed down while these industries are belatedly initiated. The same line of reasoning also stresses the importance for small countries of grouping together in some form of economic association at an early stage in their industrialization; otherwise, the limited size of domestic markets, being unable to support industries in which economies of scale and external economies are important, could constitute a major obstacle to more advanced industrial growth.<sup>8</sup>

If the more industrialized countries have less scope, within the period of current medium-term plans, for relieving foreign exchange shortages through the development of import-substituting industries, they must concentrate on augmenting their foreign exchange earnings through the expansion of their export trade in manufactures. The substantial and rapid expansion of an export trade in manufactures is clearly more feasible in countries where the development of industry—oriented initially towards the domestic market—is already well advanced. But this does not exclude the possibility of a growing export trade in manufactures from the less industrialized countries as well. Indeed, among countries with very small domestic markets, the need to expand the market through foreign trade is, for reasons just mentioned, particularly strong. In the past, there have been many instances of the development of industries engaged in the processing of raw materials which are almost entirely oriented around export markets; examples are the smelting, sugar refining or petroleum refining industries. And countries faced

<sup>8</sup> In this connexion, it was noted in the report of the Expert Group already referred to that “there are indications of the growing awareness of the need for greater co-operation in the planning of new industrial capacity. Particularly in the economically small countries, where the size of the domestic market is too small to permit efficient levels of capacity, proposals for multinational rather than national planning of industries with a view to reaping the benefits of economies of scale are being examined. Such specialization need not lead to markedly different patterns of industrialization in the co-operating countries but may even be applied to different branches of a given industry. Work on co-operation of this nature has already begun among the Central American countries. These considerations suggest that forces are at work to pave the way for regional co-operation in all matters relating to economic planning”, (United Nations, “Planning for Economic Development,” paragraph 141.)

with foreign exchange shortages cannot afford to neglect any opportunities which continue to exist for the development of such industries. But there is also need for the creation of other export industries, perhaps of a specialized character, which engage in the production of final manufactures suitable for export.

The creation of industries with the capacity to produce exportable surpluses does not in itself assure the development of export trade in manufactures in view of the many obstacles to such trade which arise out of the commercial policies of potential importing countries. But, besides the need for ready access to foreign markets, it is necessary for developing countries to be able to produce exportable supplies which are internationally competitive in price and quality. Further, if these countries are to achieve a rapid growth in exports of manufactures, the kinds of products which they can offer become important. The most dynamic components of world trade have been the exports of the engineering and metal-using industries; in recent years, the growth in exports of the more traditional classes of manufactured consumer goods, such as textiles, has increasingly been restrained, partly as a result of the pursuit of restrictive commercial policies by developed countries though also because of the extensive process of import substitution taking place in the developing countries themselves. It is obviously not possible for the developing countries to begin the export of forms of machinery and equipment which they do not themselves yet produce, but the more industrialized of these countries now produce many of the simpler classes of light and heavy goods produced by the engineering and metal-using industries and these offer a basis for the initiation of an export trade. In this context, it is worth noting that, under certain conditions, the development of an export trade in such products can proceed rapidly. Among the countries of eastern Europe, for example, exports of machinery from the two least industrialized members of the group—Bulgaria and Romania—increased very rapidly during the nineteen fifties, actually exceeding the rate of growth in trade of machinery for the group as a whole.<sup>9</sup> Among the developing countries today, there are a few indications that, under favourable conditions, a comparable expansion in such exports from the more industrialized countries could be engendered.

#### SPECIFIC MEASURES TO ENCOURAGE EXPORT PROMOTION AND IMPORT SUBSTITUTION

Various measures have generally been open to governments for the promotion of productive ac-

tivities whose output would replace imports or augment exports. The main task has been to select a set of measures which, within the prevailing structure of governmental policies, would be the most feasible and effective to apply.

Among the measures designed to encourage the growth of import-substituting activities, the most widely employed have been tariffs. Import restrictions, invariably applied primarily to safeguard and protect the balance of payments, have similarly served to protect domestic industry. Where import restrictions are exercised, however, it has often proved desirable to supplement these with the imposition of tariffs, since import restrictions may be regarded by potential domestic investors as an uncertain form of protection; they could be relaxed whenever the balance of payments situation improved. An opposite, and probably more general, problem encountered in the utilization of import restrictions is that they often create sheltered markets for attracting domestic investment into industries producing luxury or inessential goods. To prevent such possible misallocation of scarce domestic resources, restrictions usually have had to be supported by appropriate fiscal or investment licensing measures.

To stimulate the flow of investment into those branches of production which would contribute directly to reductions in requirements of essential imports, more positive incentives may also be needed. Relief from taxes has been a common form of encouragement given to import-substituting industries as well as to export-promoting industries. Such relief has sometimes consisted in exemption from income taxes, such tax holidays often being granted for a specified number of years; or relief from income tax has been afforded in the form of accelerated depreciation allowances. Another class of tax relief has been the remission of import duties on capital equipment or materials purchased by enterprises.

In the field of export promotion, where potential investors obviously cannot be assured a protected market, the need to offer special incentives has been particularly strong. Tax relief of the kinds mentioned above has been the most common type of incentive. Sometimes, the amount of tax relief has been tied directly to the export performance of the individual enterprise; relief from import duties, for instance, has been granted up to an amount equivalent to a certain proportion of the value of exports. A few countries with exchange control systems have also followed the practice of allowing exporters to retain a certain proportion of their foreign exchange earnings; these earnings can be utilized for the purchase and sale at a premium of imports for which licences are not normally granted.

<sup>9</sup> See United Nations, *World Economic Survey, 1961*, chapter 3.

It should be noted that all these incentives amount, in practice, to the provision of subsidies; and subsidized exports may provoke objections from importing countries. On this score, a recent report of the Working Party on Economic Development and Planning to the Economic Commission for Asia and the Far East (ECAFE) observed that, for developing countries, "there should be a more general recognition of the need for direct or indirect subsidies to promote new exports and exports of manufactured goods in world markets so that they would not invoke retaliatory action in advanced countries".<sup>10</sup>

It should also be noted that specific measures to increase the attractiveness of the export trade are not likely to be effective if general monetary, fiscal and exchange rate policies fail to work in the same direction. In some countries with exchange control, for instance, a policy of overvaluing the exchange rate has served as an indirect means of taxing the traditional export sector and of subsidizing imports of capital goods and materials in order to encourage industrialization. This, however, has also had the effect of discouraging the development of new lines of production for export. Again, if excess demand is allowed to emerge, the special inducements offered to exporters may not be sufficient to outweigh the attractiveness of easy sales on the domestic market. Further, in conditions of extremely unstable domestic prices and exchange rates, the inability of exporters to offer firm, forward price quotations for their products makes it difficult for them to find new external markets.

Another task required of Governments in promoting exports is the provision of assistance in the establishment of new markets. The report of the Working Party on Economic Development and Plan-

<sup>10</sup> See United Nations, *Economic Bulletin for Asia and the Far East*, vol. XIV, No. 3, 1963.

ning to ECAFE cited earlier noted that "the world market for exports, especially manufactured exports, was a complex one and the difficulties of seeking more or making a new entry were often formidable. The manufactured exports had to gain acceptance in a market where already established producers have built up consumers' preferences. The importance of trade fairs, trade missions, selling organizations in overseas markets, adequate publicity, survey or study of consumers' demand abroad, as well as the supply of exporter's credit, could not be exaggerated".<sup>11</sup>

The Working Party also noted "that the experience of some countries of the region had indicated that, as a part of export promotion measures, state trading enterprises as well as trade agreements to promote new exports or old exports in new markets might have important roles to play. Under certain circumstances, state trading could secure economies of scale in marketing operations and could stimulate production for export among small producers by providing an assured outlet as well as by providing finance, technical guidance and specifications of export products. With a command over greater financial resources, risks could be taken in exploring new markets or in introducing new products. It might be desirable to explore alternatives to state trading which had rather similar functions, such as producers' marketing boards. Trade agreements, especially long-term ones, also served as a medium for exploring new markets; they were an important means of trading with centrally planned economies and also with developing countries, both within and outside the region, between which trade relations had not been adequately developed in the past".<sup>12</sup>

<sup>11</sup> *Ibid.*

<sup>12</sup> *Ibid.*; see also United Nations, "State Trading in Countries of the ECAFE Region" (mimeographed document E/CONF.46/32).

## International policies and development planning

As noted by the Group of Experts on Planning for Economic Development, "the main burden of development necessarily rests with countries which are under compulsion to raise levels of living for their peoples and to develop their resources and skills with the greatest possible speed".<sup>13</sup> It is for these countries to take steps to raise the level of domestic saving, to utilize resources for investment as efficiently as possible, to increase the supply of organizational and technical skills necessary for development and to remove the social barriers which

<sup>13</sup> United Nations, "Planning for Economic Development," paragraph 332.

weaken the incentive to raise output. "But for the national plans of developing countries to succeed in their objectives, enlightened policies and measures at the international level are equally essential."<sup>14</sup>

There is no question of the importance for developing countries of the limitations on current economic growth that arise, not from the external sector, but from within the domestic economy. But it has become increasingly apparent over the years that the rate of increase in the supply of foreign exchange available to these countries ranks among

<sup>14</sup> *Ibid.*

the principal constraints on their domestic economic growth. This was less evident in earlier post-war years. But more recently, many countries have begun to experience the cumulative effect on their external balances of the relatively slow post-war growth in their exports of primary commodities, the deterioration in the terms of exchange between primary commodities and manufactures, the virtual disappearance of foreign exchange reserves accumulated during the war and early post-war years and the rising burden of external indebtedness. Most developing countries entered the present decade with much less favourable foreign trade and exchange positions than they enjoyed at the beginning of the nineteen fifties. Yet, if the economic growth of these countries is to accelerate from the annual rate of 4.4 per cent recorded in the decade of the fifties to the target of 5 per cent per year established for the end of the present Development Decade, there is every reason to suppose that this will have to be accompanied by a comparable acceleration in the growth of their foreign exchange receipts.

The heightened attention given to export promotion in recent plans and programmes of the developing countries bears evidence to the fact that these countries are very much aware of the need for steadily expanding their foreign exchange receipts. In the field of primary commodity exports, however, it is apparent that, for the developing countries as a group, the problem is not one of supply but of finding markets for an expanding volume of exports at stable and remunerative prices. The ways and means by which this might be achieved have been discussed at length in the documentation prepared for the United Nations Conference on Trade and Development. But it may be noted here that, in the context of development planning, the marked short-term instability in foreign exchange earnings that besets countries dependent on primary commodity exports adds appreciably to operational difficulties in the implementation of plans. To quote again from the report of the Group of Experts on Planning for Economic Development, "the marked short-term instability in export earnings (of developing countries) has placed a heavy burden on their ability to adapt plans to rapidly changing circumstances. Some countries have sought to lessen the impact of external instability on the domestic economy by channelling exports through marketing boards, others by means of variable export levies. Where exchange control has been applied, the use of foreign exchange budgets, which are subject to revision every few months in the light of the current balance of payments situation, has also helped to ensure that supplies are adjusted to requirements in an orderly manner. Through several national policies, attempts have been made to mitigate the harmful effects of such instability, but there are serious limitations to what

can be accomplished through the individual actions of the under-developed countries".<sup>15</sup>

The Expert Group went on to note that "successful instances can be observed where an under-developed country has been able to reach a long-term contract with its most important customer country for the sale of a fixed quantity of a major export product at a guaranteed price. But such instances are few. It is in recognition of this fact that a number of international commodity agreements, involving multilateral contracts for purchase and sale, export quotas and buffer stocks, have been concluded in the post-war years and that forums for international discussions and consultations have been provided in commodity councils and study groups. But, at an operational level, progress has been rather slow, and there is also the question whether an individual commodity approach is adequate, in itself, to meet the requirements of comprehensive economic development. In this connexion, the new arrangements introduced in the International Monetary Fund for providing assistance to member countries encountering temporary shortfalls in their exports have been noted with satisfaction by the Economic and Social Council along with the fact that the whole subject of compensatory financing would be on the agenda of the forthcoming United Nations Conference on Trade and Development".<sup>16</sup>

As a means of achieving the aims of greater stability and growth in the trade of developing countries, another possibility which has been receiving much attention is the enlargement of exports of manufactures. "As countries reach higher stages of development, it becomes increasingly desirable and even economically necessary to give attention to the possibilities of accelerating growth through specialization in new fields of production. This is all the more important because, as already noted, many under-developed countries have experienced difficulty in expanding their raw material exports in the face of limitations of foreign demand. Changes in the structure of foreign trade do not, however, come about without certain problems and difficulties during the period of transition. Considerable difficulties have to be overcome before an under-developed country is able to compete in the world markets for manufactured products. In recent years, the search for markets in the advanced countries has risen for some of the manufactured goods which some under-developed countries have become increasingly able to export; this has emphasized the need for more liberal policies on the part of the advanced countries in easing access to their markets. Opinion has also been voiced in favour of deliberate reservation of markets in the advanced countries for the manu-

<sup>15</sup> *Ibid.*, paragraph 301.

<sup>16</sup> *Ibid.*

factured goods which the under-developed countries are able to produce efficiently.”<sup>17</sup>

However, even with vigorous efforts by developing countries to expand their exports of manufactures and primary commodities, and with more liberal commercial policies on the part of the importing countries in developed areas, it is evident that the growth in export earnings alone would not be sufficient in the foreseeable future to finance the rising imports required by development plans. Plans have, in fact, generally been drawn up on the assumption that export earnings would be supplemented by an expanding flow of foreign capital, both private and public.

It is a familiar notion that foreign capital constitutes an important means of transferring modern technology to the developing countries. In the post-war years, this process of transferring technology has been considerably accelerated through the technical assistance and training programmes of international bodies and national Governments. The transfer of technical knowledge and skills is certainly an important feature of foreign aid programmes, but its role is clearly complementary to the provision of foreign capital for the financing of merchandise imports. And it is the need for capital to help finance the imports and investment for development programmes that is of much greater quantitative importance for the developing countries.

With regard to private foreign capital, the developing countries have generally adopted a wide range of measures to attract a larger inflow of funds. The Group of Experts on Planning for Economic Development, however, noted that “the tendency of foreign private capital in some cases to limit participation to the private sector has tended to diminish its role in the implementation of development plans of the under-developed countries. As a matter of general policy on the part of international agencies and the capital-exporting countries, a broader approach in line with the national plans is therefore to be hoped for”. The Group went on to observe that “foreign investors are often deterred by the political risks they fear to be connected with projects which otherwise may look attractive. Various proposals have been made to overcome these difficulties. Possibilities of a multilateral insurance scheme covering the risks involved have been investigated. However, because these risks are very hard to estimate, there are great practical difficulties in implementing such a scheme. One other possibility which seems to offer better prospects might be the setting up of a widely acceptable code for international investments, stipulating rules for the mutual relations between the public authorities of a country

and the foreign investors”. The Group also noted suggestions “that the Governments of the capital-exporting countries themselves should actively formulate measures to encourage a large flow of private capital which could be tailored to suit the plan requirements of the under-developed countries. The International Finance Corporation might further expand its efforts as a sponsor to stimulate substantial flow of private capital and relate these efforts to a greater extent to the development of individual countries. Suggestions have also been put forward to the need for encouraging floatations of loans in the capital markets of the advanced countries by appropriate financial institutions in the under-developed countries. These suggestions need to be given more concrete form through the efforts of international agencies and the developed countries, and an early and substantial beginning made to facilitate access to the major capital markets to Governments and institutions of the under-developed countries engaged in the planned development of their economies”.<sup>18</sup>

While inflows of private foreign capital have not been unimportant in certain countries, most developing countries have had to rely mainly on official loans and grants to provide the additional external support required by their development programmes. Such aid has been increasing in volume during recent years and considerable experience has been accumulated in its administration. But, partly because of the experience accumulated, many doubts have recently been raised about the effectiveness of the present forms in which official aid is mostly offered.

The greater part of official aid has been extended in the form of bilateral external assistance. It is widely recognized that such assistance has considerable value. However, as the Group of Experts on Planning for Economic Development observed, “in recent years certain limitations inherent in the present methods of an approach to bilateral economic assistance have become more apparent, and there is now widespread expression of a strong preference for a growing proportion of economic assistance to be given on a multilateral and international basis. Assistance from one country to another has tended increasingly to limit purchases to the donor country; this has, on the whole, tended to raise the costs of development. The balance of payments problems of individual donor countries have been frequently reflected in the terms and conditions on which their credits have become available for the under-developed countries... It may even be said that excessive emphasis on bilateral assistance may have tended to delay a co-ordinated approach to the balance of payments to the under-

<sup>17</sup> *Ibid.*, paragraph 302. For further discussion, see chapter 7 of the present survey.

<sup>18</sup> United Nations, “Planning for Economic Development”, paragraph 305.

developed countries. Moreover, it cannot be gainsaid that bilateral assistance can lend itself readily to the influence of non-economic considerations and policies".<sup>19</sup>

The Expert Group was of the opinion that "in the circumstances, efforts made by the International Bank for Reconstruction and Development to assist donor countries to co-ordinate their economic assistance through consortia and consultative groups for a multilateral approach to aid for the under-developed countries and to broaden the scope of its own loans and those granted on easier terms through the International Development Association are to be welcomed and are deserving of greater support from member countries. Also, the United Nations Special Fund constitutes an important beginning for a wider scheme of international economic assistance through the United Nations such as has been urged for many years by and on behalf of the under-developed countries. While certain adjustments will be needed in this field for a period, there is little doubt that the extension of multilateral and international arrangements for economic assistance to the under-developed countries is calculated to enhance the effectiveness of aid and to speed the development of these countries and even to assist in the solution of important problems as between the developed countries themselves. Moreover, without a considerable degree of international action in relation to economic assistance, the terms and conditions of aid to the under-developed countries may remain excessively burdensome and it may be difficult to develop an integrated and sustained approach to individual national plans as a whole".<sup>20</sup>

<sup>19</sup> *Ibid.*, paragraph 307.

<sup>20</sup> *Ibid.*

The terms and conditions on which most aid is currently extended are, in fact, a matter about which many developing countries have expressed particular concern. To quote again from the report of the Expert Group, "the main considerations urged are, first, that in 'tying' credits to specific projects, plan priorities may sometimes be distorted, and the current needs of an economy for components and raw materials, more specially for securing the fullest utilization of existing capacities, may be neglected. Secondly, opinion in the under-developed countries is unanimous that achievement of their planned targets of investment and output would be greatly facilitated if external assistance were assured to them as far as possible for their plan periods and sufficiently in advance rather than from year to year and with considerable delays as has been the situation so far. In recent years, the mounting burden of service payments on foreign loans has given rise to a strong need for a larger flow of grants as well as of loans on developmental terms as regards both interest rates and amortization periods. In each successive plan, under present conditions, the burden of repayments of capital and interest becomes larger and leaves less free foreign exchange for development. In this background, the replenishment of the resources of the International Development Association now being considered is an essential step forward in the balanced economic growth of the under-developed countries".<sup>21</sup>

<sup>21</sup> *Ibid.*, paragraph 310. For further discussion, see chapter 8 of the present survey and United Nations, "Economic Growth and External Debt—A Statistical Presentation" (mimeographed document E/CONF.46/40).

### Concluding remarks

This chapter has attempted to indicate the main problems that arise for development planning out of international trade and payments. In so doing, it has briefly described the main national and international measures which have been suggested as ways of lessening these problems and has called attention to the views of the Group of Experts on Planning for Economic Development on these questions. The

measures necessarily impinge on virtually all aspects of external trade and payments, including trade in both primary products and manufactures, external assistance and the question of regional economic integration. It is only in the context of the urgent need for accelerating the economic development of the developing countries that the full significance of these measures can be appreciated.





## **Section II**

### **INTERNATIONAL COMMODITY PROBLEMS**



## Chapter 5

# ACCESS TO MARKETS FOR PRIMARY COMMODITIES IN THE INDUSTRIAL COUNTRIES: EXISTING OBSTACLES AND MEASURES FOR TRADE EXPANSION

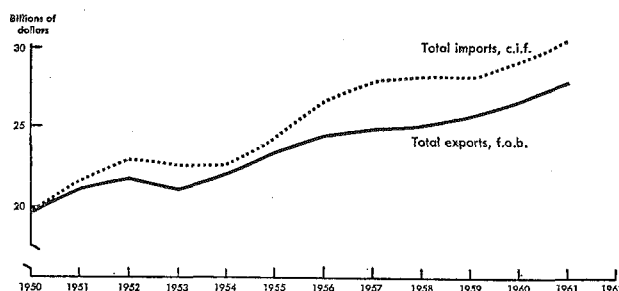
### Primary commodity trade expansion: A summary of needs and problems

#### THE PROBLEM FACING THE DEVELOPING COUNTRIES

In most developing countries the availability of imported goods is not only a determinant of the rate of economic growth but also one of the principal limiting factors. To a very large extent, the ability to obtain the requisite imports depends on the flow of foreign exchange generated by exports. In few years since the Second World War have the developing countries as a group earned sufficient foreign exchange from their exports to finance their merchandise imports. Their combined deficit on merchandise account has, on the contrary, tended to increase, notwithstanding the widespread imposition of various forms of import control. By the early nineteen sixties it was running at over \$2 billion a year, or if the petroleum exporting area of West Asia is excluded, at over \$4 billion (*see chart 5-1*).

**Chart 5-1. Developing Countries: Trends in Exports and Imports, 1949-1962**

(Three-year moving average)

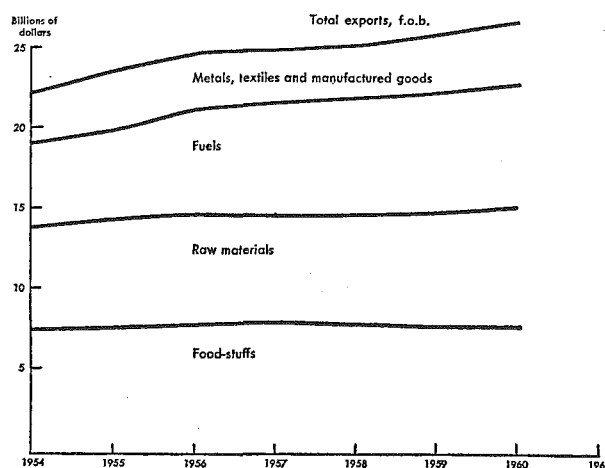


Measures aimed at narrowing this trade gap by means of an expansion of exports have to be devised within a framework that, in respect of at least two of the most significant dimensions, seems unlikely to change radically in the immediately foreseeable future. The proportion of exports going to the economically developed areas and, in particular, to the major industrial countries is large—over 70 per

cent of the total—and has not diminished noticeably in recent years. And the great bulk of the exports from the developing countries—over 90 per cent—continues to consist of primary products—raw materials, crude food-stuffs and fuel.<sup>1</sup> Of these primary product exports, moreover, by far the most dynamic has been the fuel component: in the past ten years this has risen from less than \$5 billion to more than \$8 billion. Raw material exports rose from \$6 billion to \$7 billion in the first part of the period but the rate of expansion was not maintained, while in the case of food-stuffs, exports hovered around \$8 billion throughout the period (*see chart 5-2*).

**Chart 5-2. Developing Countries: Trend in Exports, by Major Component, 1953-1961**

(Three-year moving average)



While in the long run the expansion in exports of the developing countries is most likely to come from increasing intra-trade on the one hand and

<sup>1</sup> Trends in the composition and direction of exports from the developing countries are discussed in United Nations, *World Economic Survey, 1962*, part 1 (Sales No.: 63.II.C.1), chapters 1 and 2, and *Commodity Survey, 1962* (Sales No.: 63.II.D.3).

from increasing sales of manufactured goods on the other, during the present decade—the Development Decade—even a rapid rate of growth in these directions can hardly be expected to yield a large absolute increment in total foreign exchange earnings, at least in the short run. The acceleration of the rate of growth of trade among the developing countries themselves and of exports of manufactures to the world at large will itself require a major international effort since both of these trade flows are contingent on the process of economic development itself: the expansion of intra-trade depends on the growth of internal incomes and markets, the availability of manufactures for export depends on the rate of industrialization.

It is because of this unyielding statistical structure that so much importance attaches to the course of the main trade flow of the developing countries, namely, the export of primary commodities to the industrial countries. The ability of the developing countries to finance the increasing volume of imports essential for their economic development during the years immediately ahead will continue to depend very largely on the extent to which they are able to sell to the industrial countries the requisite volume of primary commodities.

#### ACCESS THROUGH LIBERALIZATION

The earnings derived by the developing countries from shipments of primary commodities to the industrial countries will continue to be influenced by many factors both on the supply side and on the demand side. This paper deals with only one group of such factors, namely, the conditions of access to markets in the industrial countries—North America, western Europe and Japan—as determined by the commercial policies pursued by those countries. Simplification of the problem by singling out for separate discussion one of its many components is merely an analytical device. It should be borne in mind that, irrespective of the commercial policies pursued by importing countries, the export earnings of the developing countries will remain subject to a host of influences—economic, technological, institutional and political, and almost all outside the control of the exporter—that will be constantly shaping consumer demand.

The earnings of any one developing country will also depend on what happens to production, both its own and that of competing sources. The forces affecting these sources of production will for the most part have to be ignored in this chapter, but it will often be impossible to ignore the determinants of production in the importing countries themselves, as well as in other industrial countries. In many cases, commercial policy in these countries is no more than a necessary counterpart to what is in fact

a production or an income policy—the attainment of a greater degree of self-sufficiency or the separation of domestic producers from the world market so that their incomes can be adjusted in relation to those of other domestic groups without reference to the productivity or incomes of competing producers in other countries. Where that is the position it is hardly possible to postulate any modification of commercial policy without at the same time examining the feasibility and implications of a corresponding modification of other official policies governing domestic agriculture, mining or processing as the case may be.

Liberalization involves either or both of two types of action—the lowering of taxes levied on imports and the exposure of domestic producers to increased competition from imports. The extent to which this results in an increase in import expenditure—and export receipts for trading partners—depends on the response of consumers and producers to the resultant decline in domestic price. At the one extreme, domestic producers may rise to the challenge and, by increasing productivity, meet the enlarged demand, thus denying exporters a share of the increment in the (now open) market. At the other extreme, domestic producers may be unable to produce profitably even their previous output at the lower price, thus leaving import demand to expand by more than the price-induced increment. Whatever the reaction of domestic producers (if any), the gap between internal and external prices is likely to be narrowed: the internal price is likely to be reduced by the liberalizing measure, while the external price—depending on the degree to which total import demand is thereby increased—is likely to be raised.

#### *Implications for the liberalizing countries*

As liberalization consists essentially of a constellation of measures, designed to increase the ratio of world trade to world production, it poses its main challenge to importing countries. These are the countries that are required to take the initial steps and in so far as these result in disturbance, and perhaps curtailment, of domestic production, there are real costs involved. Such costs, however, should be of only a transitional nature: in the longer run the liberalizing countries also stand to gain from the improvements in global resource allocation that would ensue.

The measures that are required are necessarily national measures. But trade is an international matter and the scope and pace of liberalization can be greatly influenced by international action. In the present context such action would consist not only of bilateral and multilateral negotiation of tariff and other concessions of a liberalizing nature but also—and more importantly—of a purposeful concerting

of national measures with a view to facilitating the adjustments in production, trade and employment which these may entail. Perhaps the most useful contribution that can be made at the international level would be an attempt to co-ordinate national measures by their nature and their timing in such a way as to maximize the possibilities of trade expansion for the developing countries while minimizing the costs for the industrial countries. This is the case for a liberalization programme—as distinguished from a series of unilateral actions—and most of the present chapter is devoted to a review of the circumstances in which such a programme would be formulated, including in particular an appraisal of the obstacles—tariff and other—that existed in the major industrial countries in 1963 and what the reduction or removal of these obstacles might imply.

In so far as the commercial policy of the importing country in respect of a given commodity involves a protective function, the rate and extent of liberalization of that policy is governed very largely by the ability and willingness of the country to redeploy those resources that are incapable of raising their productivity to the extent necessary to compete with the foreign producers whose product is being granted easier access to the domestic market. Such liberalization will almost invariably benefit consumers of the commodity in question. However, because of the great diversity in the structure of primary production and trade among the industrial countries, the capacity of the economy to adjust to the consequential changes will inevitably differ widely from commodity to commodity and from one importing country to another. For this reason the problem of widening market opportunities for the primary exports of the developing countries seems unlikely to yield either to a commodity-by-commodity approach or to a uniform “linear” approach. A realistic liberalization programme is more likely to emerge if—after a careful commodity-by-commodity, country-by-country examination of existing obstacles—targets are set on an over-all or global basis in which wide commodity-country differences in situation and policy can be subsumed. Such target setting would, in the first instance, involve agreement among the industrial countries; indeed the effectiveness of the programmes would depend largely on the participation of as many industrial countries as possible.

Given the great diversity in the structure of primary production in the industrial countries and in the relative role of imports in domestic consumption of most commodities, a detailed examination of obstacles would be an indispensable foundation to any concerted international programme for alleviating the immediate difficulties of the developing countries in raising their export earnings. The scope for making concessions is obviously related to the num-

ber and severity of the barriers maintained in the importing country; gross disparities among the industrial countries in this regard would appear to preclude any balancing of concessions on a commodity basis. If some comparative measure of the extent of individual contributions is to be sought among the industrial countries which are being called upon to open their doors more widely to the flow of primary commodities from the developing countries, it is more likely to be found by balancing the sum total of concessions—and subsequently of the resultant increase in imports—than by comparing potential fiscal losses or the degree of possible disruption of domestic production in respect of each item traded. There is no way of predicting the precise consequences of any liberalization measure, least of all when the measure in question is to be put into effect simultaneously with a large number of similar measures both at home and in other countries. At best, what is known about existing cost structures, factor mobility and degree of protection may serve to indicate where adjustment problems are likely to be greatest and where—in the dynamic situation here visualized—they are likely to be most readily accommodated.

As suggested above, a rise in the import component of consumption of internationally traded commodities produced behind a protective barrier in the industrial countries will generally serve to narrow the gap between domestic and world prices. The degree of re-integration of the world market that this implies would tend to make more economic the pattern of resource use at the global level. The real cost of thus improving the international division of labour would lie chiefly in the need to reallocate factors of production—particularly labour, in many ways the least flexible in social and political terms in most of the industrial countries in which the ratio of imports to domestic production is to change. The other costs entailed in such a change would generally pose much less of a problem. The increase in the import bill for the commodity in question would be offset, in some degree, by a decline in the imports of the producers whose output was being curtailed.<sup>2</sup> There would also be an offsetting expansion in exports of other products to the developing countries whose import capacity had been increased. The expansion in the world market for the liberalized commodity should serve to reduce its instability, thus lessening the validity of one of the reasons often adduced by importing industrial countries for isolating their domestic markets.<sup>3</sup>

<sup>2</sup> In the limiting case, the rise in import expenditure would be equivalent to the value previously added by the domestic industry: in so far as imported oil replaced domestically expressed oil, for example, the cut in the mills' imports of seed would reduce the net increment in imports to something approximating the value added in the industry.

<sup>3</sup> This aspect of the problem is discussed in chapter 6.

The method employed for raising the import/consumption ratio would necessarily vary among commodities and among countries, depending in the first instance on the way in which domestic producers were being protected. In the simplest case of tariff protection, a lowering—and eventual elimination—of the duty would suffice. In other cases, where the barriers are of a quantitative nature, the gradual enlargement of a duty-free quota for imports would serve the purpose, but this might have to be accompanied by an appropriate modification in domestic support policies and methods. A mere lowering of the support price might not succeed in reducing domestic production; it might have to be combined with quantitative limitations either on gross output or on the output eligible for support. The history of domestic support programmes suggests that even this might not be sufficient to ensure that production was in fact reduced and that what was eliminated was the marginal unit of output or the marginal producer.

Lack of unequivocal success of the various attempts that have hitherto been made at the national level to cut back subsidized production, while undoubtedly a sobering consideration, should not be regarded as a fatal objection to the sort of international action discussed in this chapter. It should be borne in mind that the programme here envisioned would involve, simultaneously, all the industrial countries. A step away from self-sufficiency would hold less economic and political risk if internationally concerted than if taken independently by individual countries, for the resultant expansion in the demand for exports might be expected to contribute to a more dynamic economy, capable of accommodating more readily the necessary reallocation of resources.

For some commodities, moreover, the enlargement of the world market would itself introduce a new criterion of control: in so far as the world price began to reflect more accurately the real long run marginal cost of production of efficient producers, support prices in countries in which productivity was lower would have to be justified by much more searching comparisons than is inevitably the case when the world price is an unstable reflection of fortuitous conditions on a residual market. Governments might thus find the obligation to import a higher proportion of internal consumption at an economically realistic price a not unwelcome instrument by which to measure the cost of their own primary commodity policy.

Where there is protected domestic production, the scope and pace of action depend very largely on the degree of substitutability between the import and the locally produced commodity. Even a low rate of duty may serve as a considerable barrier, and unless domestic productivity can be raised, reducing such a tariff again poses the problem of displacing and re-

deploying workers and capital. However, the protective role of the tariff depends not only on the relative efficiency of the local producers but also on the "state of the market", internal as well as external demand. Duties are more readily reduced in times of buoyant demand and rising prices than in times of recession. Moreover, since as indicated above, the protective effect of a tariff is not easily determinable, it is probable that cuts are more likely to be acceptable if they are spread over a period than concentrated in a single concession. For some commodities—especially those that are subject to both quantitative and tariff restraints on imports—it might even be convenient to establish duty-free quotas, perhaps of a gradually increasing size. These considerations point to the need—on practical grounds—to phase any general liberalization programme over several years, allowing time for the impact of each stage of concession to be appraised and for adjustments in domestic production to be made, should these prove necessary.

Tariffs which have no protective function but provide revenue to the importing country are generally rather more certain in their incidence and more easily modified. Here the adjustment is primarily a fiscal one of finding alternative sources of revenue; factor redeployment is hardly likely to be involved and the effect of lower prices and higher consumption on the balance of payments—an essentially desirable one in the present context—is unlikely to represent a significant problem to the industrial countries.

The problem raised by such tariff reductions, indeed, is more likely to be just the opposite: their impact on consumption may be too small to have much effect on imports. This reflects the size of the price pyramid on the one hand and the response of consumption to changes in price on the other. In many cases the price pyramid is such that import unit value—to say nothing of export unit value—is a relatively small proportion of final cost to the consumer. Hence the lowering of a tax based on import unit value may have relatively little effect on consumer price. And in general, the price elasticity of demand for most primary commodities tends to be very low; though consumption may be stimulated by a decline in price, the increase in the former is often only a small fraction of the reduction in the latter, especially in high-income countries.

Because of the structure of price and the characteristics of demand, the case for reducing a duty or fiscal levy on an imported commodity may be weaker than the case for retaining the charge and remitting part of the proceeds to the country whose product is being taxed, the sharing to reflect as far as possible the incidence of the tax on the exporting country. Liberalization through reduction of duties

is, for example, likely to prove relatively unrewarding among those commodities the taxation of which has become not only a firmly established element in the fiscal structure of most industrial countries but also—because of extremely low price elasticity of demand—a significant source of revenue. As the incidence of such sumptuary taxes falls mainly on consumers, the fact that the commodity—tobacco, wine, motor spirit, for example—may originate partly or even largely in developing countries has much less relevance than in other cases. Even a principle that might seem unexceptionable—that high-income countries should avoid taxing the products of low-income countries—would, therefore, probably be acceptable only as a broad general objective. Doubtless, most countries would be reluctant to surrender fiscal sovereignty to the extent implicit in such a principle. Thus, in any liberalization programme, a sharing of the proceeds of a fiscal duty on a commodity originating in a developing country—to the extent that the duty may be assumed to have an adverse effect on the latter's export proceeds—might be regarded as a satisfactory alternative to a reduction in the duty.

Pursuing this question a stage further, it might be asked whether an extension of such a tax system—levied by the industrial countries on behalf of the developing countries—would not be feasible. The number of commodities for which such a policy might be expected to be in the longer-run interests of the developing countries, however, is probably small. The market situation facing most commodities on which the developing countries must rely for increasing their export earnings in the years immediately ahead is just too vulnerable or too competitive—in respect of alternative sources of supply, in respect of substitute materials, including synthetics, or in respect of technological advance which is always spurred on by a rise in price.

#### *Implications for the developing countries*

The possibility that the reduction of revenue-producing tariffs and tariff-like charges might have relatively little effect on the volume of consumption and trade is, of course, no argument for not pursuing the goal of liberalization as far as possible. The nature of the problem is such that no potentially useful measure, however unpromising in global terms, can be rejected in advance. Even if it can be shown that the loss in revenue is likely to be greater than the gain in trade in absolute terms, disparities in per capita income between the importing country and the exporting country might change the balance in relative terms.

More serious is the question of relative supply elasticity in the developing countries. Another of the harsh statistical facts which provide the frame-

work within which a liberalization programme has to be formulated is the minority status of the developing countries as a group, as suppliers of most of the primary commodities imported by the industrial countries. If petroleum and its products are excluded, only about a third of the imports of primary commodities into industrial countries fall into the category of those coming predominantly from the developing countries. And only about a fourth of the primary commodity imports of the industrial countries from the developing countries represent items for which there is no close substitute obtainable from within the industrial countries themselves. Hence the proportion of trade in which the benefits of any reduction in barriers are likely to accrue only or mainly to the developing countries is relatively small. To gain from any straight liberalizing measure, the developing countries will have to compete with suppliers in the industrial countries as well as in the centrally planned countries.

There is in general no reason to suppose that the share of the developing countries in the increment in trade that might be set in motion by a liberalization programme would be greater than their previous share in the exports of the commodity in question. Indeed, in many cases—especially among temperate farm products and some of the more processed commodities—the capacity to expand output in the short run is probably appreciably greater among the industrial countries than among the less developed countries, many of which are finding it increasingly difficult to supply their own growing internal demand for some of these items. This of course, is no reason for abandoning the idea of a programme which promises to improve the global allocation of resources. But in so far as the principal objectives of the programme would be the expansion of imports from the developing countries, the question arises whether, in the case of a tariff obstacle, for example, a straight cut in duty would serve the purpose.

The alternative would be preferential reductions in duty applicable to developing countries, defined in terms of agreed criteria in respect of such factors as per capita income, degree of export dependence or dependence on exports of the commodity in question. Justification of such an arrangement would be along the lines of the "infant industry"—or in this case "infant economy"—argument and by the same token it might be of a transitional nature, granted for a limited period and subject to review.

Some preferential arrangements of this general nature are already in existence, chiefly in the form of relics of earlier trade ties between metropolitan powers and their dependencies. However, the two main preferential systems include industrial and high-income countries among their beneficiaries: the sterling system includes Australia, Canada and New

Zealand, the franc system not only includes the developing countries associated with France, but applies—also in varying degree for different commodities—to industrial members of the European Economic Community (EEC). The escudo system, on the other hand, is linked to too small a market to have much significance; while the United States-Philippines preferences are in the process of disappearing.

From the global point of view, the principal disadvantage of the existing preferential systems is their tendency to compartmentalize trade. The international division of labour is not used to the best advantage; prices in the various compartments tend to get out of line, being sustained in a number of cases by the disposal of marginal supplies on the free market—much to the discomfiture of those countries that have to sell all their output on that same free market.

While a formal liberalization programme would involve the dismantling of such arrangements, it is conceivable that the interests of the developing countries as a whole might be better served by their modification and generalization. Such a reshaping of these preference systems would involve widening them so as to include all developing countries, appropriately defined. If such a complete generalization is beyond immediate realization, it might be brought about in stages. In this case the first step might consist of a partial merging of the two main systems: countries meeting certain objective standards of per capita income and export dependence, at present members of one of the systems, might be given preferential access to the other. There would be some dilution of privilege for countries already enjoying preference as more countries were given preferential access to their sheltered market, but this would be offset by the opening of new markets in the industrial countries of the other system, not previously granting them preference. There would also be some discrimination against third countries as markets on which they compete equally with members of one of the preference systems begin to grant privileged entry to those countries on a par with those already enjoying preference. Some form of financial compensation might be instituted to make good any loss of trade sustained by third countries occurring during this phase.

There would be further dilution as these developing countries outside both existing systems were admitted to the enlarged preference area, but this could also be compensated, perhaps by special financial aid for export diversification, in the manner now in operation in those EEC-associated countries that have lost privileges previously enjoyed in the French market. The need for this would be reduced if there were further widening of the market giving

preferential access to developing countries, such as would occur if industrial countries outside existing systems agreed to participate in the generalized scheme.

Where quantitative rather than tariff barriers are the object of liberalization, preferences for the developing countries could be achieved by administrative action, through the allocation of quotas to countries satisfying the agreed criteria. Where no specific country quota system was employed, global quotas might be made the subject of geographical distribution by appropriate international machinery—the body administering a commodity agreement, for example. Liberalization would imply a progressive enlargement of such quotas in line with nominated targets. Each importing country might allocate quotas to developing countries in accordance with internationally determined criteria; or, as one possible alternative, quotas might be pooled and perhaps sold by auction, bids being accepted—in line with the preferential arrangement—only from qualifying countries. Such a method of disposing of global quotas might, in some cases, also help to reconstitute the world market in a way that would make the prevailing price a more accurate indicator of cost and a better guide to resource allocation.

#### ELEMENTS IN A LIBERALIZATION PROGRAMME

Among the various influences likely to affect both the shape and the results of a liberalization programme perhaps the most significant are (a) the low elasticities of demand for most of the primary commodities in the industrial countries, in respect of both price changes and income changes, (b) the existence in the industrial countries of a primary sector which ranges—on the basis of global comparisons—from among the most productive and technically advanced at the one extreme to among the least productive and most protected at the other and (c) the minority position of the developing countries as a group source of many primary commodity exports to the industrial countries. The unfavourable demand conditions—aggravated in many cases by an unstable world market—tend to accentuate competition among producers to the further disadvantage of exporters among the developing countries which are often not in a position to expand their exports as readily as the industrial countries.

In line with the nature of the existing commercial policy obstacles, a liberalization programme would, in the first instance, comprise a threefold approach—(a) a progressive reduction in revenue duties and allied charges on primary commodity imports (subject to an option to share the proceeds with the exporting country), (b) a parallel, though possibly slower, lowering of the duties which protect domestic



producers and (c) a steady raising of the permitted volume of imports subject to quantitative control.

Given the wide diversity both in the size, structure and viability of the primary producing sector in the industrial countries and in the methods by which imports are taxed and domestic production is protected, the programme would have to set generalized aims rather than specific or uniform aims in respect of each commodity. Though the individual commodity components of the programme might thus differ widely from country to country, both in their relative importance and in the method of facilitating expansion of imports, the aim would be to diffuse the burden of transitional costs as widely as possible by sector and by country. There is no readily available means of measuring—least of all in advance—the impact of the concessions that may be made: the incidence might be mainly fiscal in one case, mainly on employment in another, mainly on the balance of payments in another, and so on. This suggests that the success of the programme would depend not only on spreading the action as widely as possible in terms of both the importing countries participating and the range of commodities covered but also on the setting of realistic targets, consisting where necessary of a series of steps, phased so as to allow the effects of each concession to be appraised before the succeeding one was made. Moreover, the wider the spread of the action, the more expansionary are the over-all effects in any given period likely to be and hence the easier is it likely to prove to accommodate such alterations in employment and income distribution as might be occasioned by any single concession. This, combined with a generally exploratory approach to the fixing of objectives for individual segments of the programme, might serve to encourage countries to make concessions in instalments that they would not make in a single act.

For such an approach to be practicable, the international machinery for formulating and implementing

the programme would need to be designed to bring the participating countries together on a regular basis to nominate short-run and longer-run targets, to announce new liberalization measures at each stage, in the light of an assessment of the effects of previous measures. By means of such a process of regular confrontation, the importing countries might act as a stimulus on one another in the making of concessions of significance to the trade of the developing countries. The formulation of the programme would thus be a continuing rather than once-and-for-all process.

The effectiveness of such a liberalization programme would depend not only on the extent and pace of concessions but also on their being backed by additional measures. The industrial countries would probably be less reluctant to open their domestic markets to an increased volume of imports if the world market were itself more stable. While, as argued above, the mere enlarging of their intake from the world market would help to stabilize it, for many commodities—particularly those whose output is subject to wide annual fluctuations—additional action might well be necessary to equalize the supply over time.<sup>4</sup>

Moreover, the widening of access to the markets of the industrial countries would have to be paralleled by appropriate organization and effort on the supply side if the developing countries were to benefit. This would include changes in export structure where price trends indicated persistent imbalance. And to facilitate these, it might prove feasible to employ the liberalization machinery to concert measures for diverting revenues raised from taxes on such imports from the developing countries that—because of their position in the fiscal system or the extremely low price elasticity of demand—were not priority candidates for liberalization, for use in financing the restructuring of export activities.

<sup>4</sup> The possibility of such action is discussed in chapter 6.

## Imports of primary commodities into the industrial countries

### RECENT CHANGES IN IMPORT DEPENDENCE

Primary commodity imports of the industrial countries may be divided, for purposes of the present analysis, into two main categories—those that provide all or virtually all of the consumption and those that supplement domestic production. Among the former the most notable trend in post-war years has been the rise of locally produced substitutes for some items: imported cotton has furnished a diminishing proportion of total apparel fibre, natural rubber a

diminishing proportion of total rubber, natural nitrates of total nitrates, bark tannins of total tanning chemicals, vegetable spices, flavourings and dyes of all of this type of material, and so on. Among the supplementary imports there has been a distinct difference in trend between agricultural and mineral commodities; in general, the industrial countries have become somewhat more self-sufficient in the former, somewhat less self-sufficient in the latter (*see* table 5-1 and appendix table 5B-1).

Table 5-1. Primary Commodities: Distribution of Change in Import Dependence in Major Industrial Countries between 1950 and 1960<sup>a</sup>

Ratio of net imports to apparent consumption (percentage)	Number of cases in which the ratio (percentage) of net imports to apparent consumption								
	Declined by more than 2			Remained more or less the same			Increased by more than 2		
	<i>Temperate food-stuffs</i>	<i>Beverage crops and agricultural raw materials</i>	<i>Minerals</i>	<i>Temperate food-stuffs</i>	<i>Beverage crops and agricultural raw materials</i>	<i>Minerals</i>	<i>Temperate food-stuffs</i>	<i>Beverage crops and agricultural raw materials</i>	<i>Minerals</i>
0-10 .....	6	5	4	29	2	1	6	1	3
11-30 .....	3	6	1	3	—	—	4	3	10
31-60 .....	1	3	1	2	—	—	4	2	11
61-100 .....	4	4	3	7	22	9	5	8	13
TOTAL, above	14	18	9	42	24	10	19	14	37
Net export <sup>b</sup> .....	7	9	2	14	—	2	—	2	2
All items .....	21	27	11	56	24	12	19	16	39

Source: Table 5B-1.

<sup>a</sup> The European Economic Community considered as a single unit, Japan, the United Kingdom and the United States.

<sup>b</sup> An increase in the ratio of net exports to consumption has been regarded as equivalent to a decline in import dependence.

Technological advances have played a major role in the changing relationship between imports and production in the case of many agricultural commodities, most notably in the evolution of synthetic materials and other man-made substitutes for the natural product, and in raising the productivity of agriculture in the industrial countries. War-time disruption in the flow of traditional supplies, as well as lags in production in some of the less developed regions in the post-war period, also played a part in the process.<sup>5</sup> But in many of the industrial countries these factors were complemented by official policies—a fiscal régime which tended to encourage investment in some of these import-replacing activities, price support programmes which raised or sustained incomes in particular sectors, and commercial measures which protected or even isolated domestic producers.

The effects of these various influences cannot be disentangled. In many cases indeed, the policies themselves have been interdependent and mutually determining: the investment would not have been made if it had not been for the price support; the price support could not have been administered in the absence of control over imports; the technological advance was in part a result of the investment. This interdependence of policy measures needs to be kept in mind throughout the present chapter which is directed specifically to questions of commercial policy. The latter is often inseparable from other aspects of economic policy: widening access on domestic markets for the exports from developing countries may often entail much more than a modification in tariff or import quota.

<sup>5</sup> These factors and their consequences are discussed in United Nations, *Commodity Survey*, 1962.

The tendency for imports to cater for an increasing proportion of the domestic market in the case of many minerals reflects the fact that absorption was rising rather more rapidly, relative both to the consumption of agricultural commodities and to the output of domestic mines—experiencing diminishing returns as many of these were, notwithstanding remarkable gains in productivity in several instances.<sup>6</sup> Both technology and the changing pattern of final demand—overseas as well as internal—played a part in these movements, the most notable of which was the expansion in the consumption of aluminium and petroleum, both increasingly import-based in respect of the crude material inputs.

The rise in import content of mineral consumption began to meet with some resistance towards the end of the nineteen fifties. In the United States, for example, quantitative controls over imports were imposed in the case of petroleum and products, and lead and zinc, ore and metal, while the duty on copper, which had been suspended since the war, was reintroduced. Similarly, in several countries in western Europe, coal imports were restricted and taxes imposed on fuel oil to protect the domestic coal industry.

At the beginning of the nineteen sixties, the main contrast in the primary commodity situation was between the United States—a net exporter of most items—and the United Kingdom and to a less extent

<sup>6</sup> The statistical picture with regard to relative import dependence is obscured somewhat—particularly in the case of the United States—by large-scale changes in inventory movements. The earlier post-war period, especially 1950-1953, was one of massive stock building—not least from imported materials—while the later years, especially after 1957, saw a certain amount of liquidation of these stocks. Since much of this movement was in and out of strategic stockpiles, it is not always possible to document it with precision.

Japan, the principal net importers. The EEC, though heavily dependent on imports for oil-seeds and many minerals, was only a small net importer of most of the farm products, with the notable exception of oranges, tobacco and maize. In the United States, heavy import dependence—apart from the essentially tropical products—was confined largely to the minerals, though half of its sugar and rather more than a fourth of its rubber also came from abroad. In Japan, and even more, the United Kingdom, imports also supplied much of the requirements of the temperate farm products, including, in particular, the cereals.

Among the major industrial countries, thus, the United States stood out as a leading exporter of primary commodities. France was also a significant exporter, especially of the temperate farm products, Italy of rice, tobacco and various fruits and the Netherlands of various dairy and livestock products. Outside this group, among the second rank of industrial countries—Canada and the remaining countries of western Europe—the significance of primary commodity exports was relatively greater.

The developing countries were thus engaged in exporting a considerable range of primary commodities to countries in which there was domestic production either of the commodity in question or of close substitutes, and in competition with industrial countries also exporting such products. A rough classification of the primary commodity exports from the developing countries to the industrial countries in 1962 suggests that about two-thirds of the total by value (or, if petroleum and its products are excluded, about one-half) faced domestic competition in one or more of the industrial countries (*see* table 5-2 and appendix table 5B-2). Around one-eighth of the total faced the competition of industrial (“synthetic”) substitutes, while the proportion of exports facing only the competition of the developing countries selling the same commodity was between a sixth (including petroleum) and a fourth (excluding petroleum). Thus, of the primary commodity exports of the developing countries to the industrial countries, a large proportion—up to three-fourths in 1962—is sold in competition with similar or substitute commodities produced in the importing countries.

Notwithstanding the crudity of such a classification, it serves to dramatize the importance of the primary sector of the industrial countries in the context of international commodity trade. It is the size and complexity of this primary sector that accounts both for a vast array of domestic control measures in the industrial countries and for the range and height of the commercial policy barriers that face so many

**Table 5-2. Primary Commodities: Imports of Industrial Countries from Developing Countries Classified According to the Nature of the Competition They Face,<sup>a</sup> 1962**

Nature of competition faced by the export <sup>b</sup>	Value of imports <sup>c</sup> (millions of dollars)	Percentage distribution <sup>d</sup>	
		Including petroleum	Excluding petroleum
No close substitute.....	3,615	18	27
A close natural substitute	1,093	5	8
A close industrial substitute .....	1,804	9	13
Production of the industrial countries .....	13,722	68	52
TOTAL	20,234	100	100

*Source:* Bureau of General Economic Research and Policies of the United Nations Secretariat, based on national trade statistics; *see* appendix table 5B-2.

<sup>a</sup> Industrial countries comprise North America, western Europe and Japan; developing countries comprise Latin America, Africa (other than South Africa) and Asia (other than Japan, Turkey and the centrally planned economies).

<sup>b</sup> Where the commodity competes with different types of substitutes in different major end-uses—as for example, cotton exported by the developing countries does when it competes with cotton produced in the industrial countries and with rayon, an “industrial” substitute—total imports have been allocated in a more or less arbitrary fashion between the categories concerned.

<sup>c</sup> Measured c.i.f. except in the case of Canada and the United States.

<sup>d</sup> Based on imports of \$20.2 billion including petroleum, \$13.5 billion excluding petroleum.

primary commodity exports from the developing countries.

#### THE PATTERN OF PRIMARY COMMODITY IMPORTS

In order to assess the incidence of the various commercial policy obstacles that currently impede the flow of exports from developing to industrial countries, it is necessary to examine actual trade returns. For this purpose, appendix table 5B-3 sets out the structure of primary commodity imports for the most recent year available—1962.<sup>7</sup> This reflects not only the impact of commercial policy measures currently in force but also the effect of longer-term trends—such as those indicated above—as influenced by the current state of demand and supply, both in-

<sup>7</sup> Because of the availability of more detailed data for 1962 than are contained in the historical series used in United Nations, *World Economic Survey, 1962*, part I, inclusions in the category of primary commodity are more precise and selective. In terms of the SITC, the definition includes all of section 0 (food-stuffs and feed)—with the exception of certain manufactured items (013, 022.1, 022.2, 032, 048, 053, 055, 062, 071.3, 073 and 099), all unmanufactured tobacco and wine, all of section 2 (crude materials), section 3 (mineral fuels), section 4 (fats and oils), division 68 (non-ferrous metals) and sub-groups 671.4 and 671.5 (ferro-manganese and other ferro-alloys). Altogether 140 “commodities” have been distinguished, though some of them consist of residual groups each consisting of a number of minor items.

ternal and in the world market. Though it is not possible to attach any firm quantitative significance to a particular commercial policy impediment merely by reference to any actual flow of trade, yet if it can be legitimately assumed that a reduction of the impediment would generally result in an increase in trade, the actual level of imports is an essential datum from which to begin the assessment of the

existing obstacles. In the aggregate, the developing countries provided only about 44 per cent of the primary commodity imports of the industrial countries in 1962. A further 7 per cent came from Australia, New Zealand and South Africa. Thus, almost half of these imports originated in the industrial countries themselves or in the centrally planned countries (*see* table 5-3).

Table 5-3. Primary Commodities: Imports into Industrial Countries,<sup>a</sup> 1962

Order and commodity	Value of imports from <sup>b</sup> (millions of dollars)			Imports from primary exporting countries <sup>c</sup>		Imports from developing countries <sup>d</sup>		
	All sources	Primary exporting countries <sup>c</sup>	Developing countries <sup>d</sup>	As percent- age of imports of each commodity	Individual item as percentage of all primary commodity imports from the primary exporting countries	As percent- age of imports of each commodity	As percentage of all primary commodity imports from develop- ing countries	
							Individual item	Cumulated
1 Petroleum, crude ...	5,736.0	5,316.8	5,316.8	92.7	22.8	92.7	26.3	26.3
2 Coffee .....	1,737.5	1,717.1	1,716.3	98.8	7.4	98.8	8.5	34.8
3 Petroleum and prod- ucts .....	3,112.8	1,455.3	1,443.7	46.8	6.2	46.4	7.1	41.9
4 Copper .....	1,703.5	932.7	899.4	54.8	4.0	52.8	4.4	46.3
5 Sugar .....	1,139.4	1,001.8	885.6	87.9	4.3	77.7	4.4	50.7
6 Cotton .....	1,424.2	871.2	870.6	61.2	3.7	61.1	4.3	55.0
7 Rubber .....	1,011.5	764.1	763.9	75.5	3.3	75.5	3.8	58.8
8 Iron ore .....	1,414.7	709.9	695.1	50.2	3.0	49.1	3.4	62.2
9 Cocoa .....	516.2	443.7	440.2	86.0	1.9	85.3	2.2	64.4
10 Tea and maté .....	466.1	439.6	439.5	94.3	1.9	94.3	2.2	66.6
11 Wood, rough .....	795.0	399.0	391.8	50.2	1.7	49.3	1.9	68.5
12 Bananas .....	375.8	359.9	359.9	95.8	1.5	95.8	1.8	70.3
13 Wool .....	1,972.5	1,513.2	294.6	76.7	6.5	14.9	1.5	71.8
14 Wine .....	558.8	279.6	272.5	50.0	1.2	48.8	1.0	73.1
15 Oil-seed cake and meal	479.3	264.1	257.1	55.1	1.1	53.6	1.3	74.4
16 Tobacco .....	794.1	241.2	238.2	30.4	1.0	30.0	1.2	75.6
17 Meat, fresh, chilled, frozen .....	1,267.7	690.8	237.7	54.5	3.0	18.8	1.2	76.8
18 Tin .....	264.5	198.5	198.5	75.0	0.8	75.0	1.0	77.8
19 Ground-nuts .....	213.8	209.6	198.3	98.0	0.9	92.7	1.0	78.8
20 Bauxite .....	221.8	192.7	192.6	86.9	0.8	86.8	1.0	79.8
21 Maize .....	879.8	290.7	179.5	33.0	1.2	20.4	0.9	80.7
22 Oranges and tangerines .....	418.3	210.4	168.7	50.3	0.9	40.3	0.8	81.5
23 Copra .....	167.7	167.3	166.6	99.7	0.7	99.3	0.8	82.3
24 Hides and skins .....	521.8	285.6	158.1	54.7	1.2	30.3	0.8	83.1
25 Jute .....	161.4	157.4	157.4	97.5	0.7	97.5	0.8	83.9
26 Wheat .....	1,047.1	253.9	148.8	24.2	1.1	14.2	0.7	84.6
27 Fish .....	623.4	175.8	140.9	28.2	0.8	22.6	0.7	85.3
28 Phosphates, natural ..	188.5	121.6	121.6	64.5	0.5	64.5	0.6	85.9
29 Fish meal .....	180.0	140.0	117.0	77.8	0.6	65.0	0.6	86.5
30 Manganese ore .....	151.7	134.8	112.4	88.9	0.6	74.1	0.6	87.1
31-								
140 All other items .....	16,975.3	3,744.7	2,729.1	22.1	15.8	16.1	13.0	100.0
TOTAL imports of pri- mary commodities	46,520.2	23,683.0	20,312.4	51.1	100.0	43.8	100.0	100.0

Source: Bureau of General Economic Research and Policies of the United Nations Secretariat, based on data compiled by the Statistical Office of the United Nations.

<sup>a</sup> Belgium-Luxembourg, Canada, Denmark, France, Federal Republic of Germany, Iceland, Ireland, Italy, Japan, Netherlands, Norway, Portugal, Sweden, Switzerland, Turkey, United Kingdom, United States, plus Austria and Finland for 3-digit SITC items.

<sup>b</sup> Measured f.o.b. for Canada and the United States, and c.i.f. for all other importing countries.

<sup>c</sup> Latin America, Caribbean Islands, Africa, West Asia (other than Turkey), southern and south-eastern Asia, Oceania.

<sup>d</sup> Primary exporting countries less Australia, New Zealand and South Africa.

Among the commodities drawn from the primary exporting countries there was a very high degree of concentration: the first ten items were responsible for two-thirds of the import bill, while almost three-fourths of the items accounted for only 10 per cent of the trade. This extremely skew distribution suggests that the reduction of obstacles to imports of a handful of the leading commodities might have a greater impact on the export earnings of the developing countries considered as a group than would liberalization of a large number of minor items, at least in the short run. This conclusion needs to be tempered, however, by reference to the distribution of the obstacles themselves and also by the realization that the over-all measure of trade is not always the most relevant consideration of importance: among the items that account for only a small proportion of the trade of the developing countries as a group are many that are of major significance to individual exporters.

The distribution of obstacles is examined in the following section of this paper. In the present context it is perhaps sufficient to point out that among the leading commodities there are several in which trade is relatively free—copper (item number 4 in table 5-3), rubber (17), iron ore (8), tea (10) and bananas (12), for example. There are also several in which imports are restrained by quotas or taxes in only a small number of countries—crude petroleum (1), coffee (2), cotton (6), cocoa (9) and wool (13), for example. In the light of this and allowing for the probability that the smallness of trade in some, at least, of the items at the other end of the list is in itself a result of impediments to imports, it seems evident that only a widespread programme of relaxation is likely to have a significant effect on the volume and value of primary commodity trade.

For the developing countries, moreover, the impact of even such a wide-ranging liberalization programme would be materially reduced to the extent that competing suppliers in the industrial and centrally planned countries are in a better position to expand production so as to take immediate advantage of easier access to markets in importing countries. Of the 140 items listed in table 5-3, the developing countries provided more than the industrial and centrally planned countries in only 51, that is to say in not much more than a third of the total. And the developing countries are predominant suppliers—providing more than three-fourths of the imports of the industrial countries in 1962—of relatively few commodities: bananas, sugar, coffee, cocoa and tea, pepper and other spices, ground-nuts, copra, palm kernels, cottonseed and castor oil seed, rubber, jute, ramie, agaves and abaca, natural sodium nitrate, bauxite and tin concentrates, vegetable gums and resins, crude petroleum, ground-nut, linseed, palm,

coconut and castor oils, and tin metal—that is, about a fifth of all items. These are the commodities which tend to combine a high degree of import dependence on the part of the industrial countries and a high degree of export participation on the part of the developing countries (*see* table 5-4).

The fact that the developing countries are minority suppliers, in the case of almost two-thirds of the primary commodities imported by the industrial countries, is not an argument against a programme of liberalization. It does, however, suggest that the gains likely to accrue to the developing countries from such a programme may be far from proportionate to their dependence on primary commodities for export earnings. For most commodities, indeed, the combined effect of a higher elasticity of supply in the industrial exporters and a low elasticity of demand in the industrial importers would severely limit the expansion in trade that the developing countries might realistically expect from a lowering of duties or other taxes or the elimination of quantitative controls.

The minority status of the developing countries as international suppliers of so many of the primary commodities also raises the question of preferential admission. It suggests that in many cases the barriers erected by industrial countries around these primary sectors are designed to provide protection mainly from producers in other industrial countries. The risks to domestic producers that might have to be faced if easier access were granted to imports from developing countries would be much smaller and might in many instances be acceptable to the industrial countries concerned. This might provide a basis for a formula for selective liberalization as one stage in the process of reducing the obstacles to international trade.

While it is only in respect of a few items that the developing countries are relatively well placed to benefit substantially and immediately from an expansion in trade, in so far as the lowering of barriers served to increase prices on the international market, they would share in the gain. The extent to which any liberalizing measure is likely to result in an increase in total demand or a diversion of demand from the domestic to the world market is discussed in a subsequent section of this chapter. In the present context, the principal lesson of the current pattern of trade is that the concessions would not only have to be made in respect of some major items but also spread widely over many minor items before they would have much impact on the aggregate export earnings of the developing countries. The aggregate effect, moreover, is not the only criterion of significance. The category of developing countries in table 5-3 comprises no less than 125 countries and terri-

Table 5-4. Primary Commodities: Distribution According to Import Dependence, Around 1960

Ratio of net imports to apparent consumption (percentage)	Items of which the percentage of imports of industrial countries from the developing countries, in 1962, was											
	Less than 30				31-70				71 and over			
	United States	United Kingdom	Japan	European Economic Community	United States	United Kingdom	Japan	European Economic Community	United States	United Kingdom	Japan	European Economic Community
Less than 0	Wheat Cotton-seed oil Soya bean oil Barley Tobacco Rye Grapefruit Maize Apples Oats Potatoes Butter		Soya bean oil Fish Eggs Potatoes Apples	Butter Zinc Potatoes	Cotton Rice Oil-seed cake Oranges	Palm kernel oil	Palm kernel oil Oranges	Petroleum products	Linseed oil Ground-nuts Ground-nut oil	Tin	Linseed oil	
0-9	Eggs Aluminium	Eggs Oats Potatoes Fish	Tobacco Oats Lead Citrus Butter Zinc	Apples Oranges Rye Eggs Wheat Soya bean oil	Copper ore Petroleum products		Oil-seed cake Rice	Palm kernel oil	Cotton-seed		Tin Ground-nuts	Sugar Coconut oil
10-19	Wool Zinc Fish	Cotton-seed oil Barley Apples	Aluminium Barley Cotton-seed oil	Fish Oats Barley		Petroleum products	Zinc ore Copper	Rice Olive oil	Petroleum crude			
20-49	Lead	Soya bean oil Rye Wool		Lead Aluminium Maize	Copper Iron ore Lead ore		Petroleum products Lead ore Copper ore	Coconut oil Oil-seed cake	Rubber	Coconut oil Ground-nut oil		Ground-nut oil Bauxite
50-74		Lead Wheat Zinc	Wheat Soya beans Maize	Wool Tobacco Linseed	Zinc ore	Iron ore Oil-seed cake		Iron ore Oranges Zinc ore Lead ore	Sugar	Linseed oil Rubber Sugar	Manganese ore	Linseed oil Tin Cotton-seed

75-100

Aluminium	Wool	Rye	Olive oil	Lead ore	Iron ore	Copper	Tin	Palm oil	Sugar	Rubber
Butter	Linseed	Cotton-	Palm ker-	Copper	Olive oil	Copper ore	Bauxite	Tin ore	Rubber	Petroleum,
Linseed		seed oil	nel oil	Olive oil	Zinc ore	Cotton	Manganese	Abaca	Petroleum,	crude
Soya beans		Soya beans		Copper	Cotton		ore	Manganese	crude	Ground-nuts
Tobacco				ore			Palm oil	ore	Palm oil	Palm oil
Grapefruit				Cotton			Tin ore	Bauxite	Tin ore	Tin ore
Maize				Oranges			Abaca	Cotton-	Abaca	Abaca
				Rice			Bananas	seed	Bauxite	Manganese
							Coffee	Ground-nuts	Cotton-seed	ore
							Cocoa	Petroleum,	Bananas	Bananas
							Tea	crude	Copper	Copper
							Pepper	Bananas	Cocoa	Cocoa
							Spices	Copper	Tea	Tin
							Copra	Cocoa	Pepper	Pepper
							Palm	Tea	Spices	Spices
							kernels	Pepper	Copra	Copra
							Jute	Spices	Palm	Palm kernels
							Ramie	Copra	kernels	Jute
							Agaves	Palm kernels	Jute	Ramie
								Jute	Ramie	Agaves
								Ramie	Agaves	
								Agaves		

Source: Bureau of General Economic Research and Policies of the United Nations Secretariat, based on tables 5B-1 and 5B-3.

tories. As the exports of most of these countries and territories tend to be highly concentrated on a small number of items, even a liberalization measure

that had very little significance on over-all terms might make a crucial contribution to the earnings of particular exporters.

## Policy impediments affecting primary commodity imports into the major industrial countries

### GENERAL NATURE AND EXTENT<sup>8</sup>

Primary commodities are subject to a wide spectrum of policy impediments to international trade. This chapter distinguishes customs duties or tariff restrictions, quantitative controls or non-tariff restrictions and fiscal charges or excise taxes.<sup>9</sup> In many cases imports are subject to more than one form of restraint. Though the severity of the barrier differs from country to country, there are relatively few commodities in which trade is completely unimpeded. Nevertheless, because of the relative importance of some of the major raw materials and "tropical" products in the trade flow between the developing countries and the industrial countries, the proportion of total import value entering free of restraint is rather greater than the range and complexity of the impediments might suggest. To judge by trade flows in 1962, about two-fifths (by value) of the primary commodity exports of the developing countries to the major industrial countries enter without restraint.<sup>10</sup> A similar proportion is subject to fiscal charges;

about a third is dutiable and a fourth controlled by non-tariff means (*see* table 5-5).

The unimpeded proportion of imports into the major industrial countries is lowest in the case of basic food-stuffs and fuels (13 per cent or less), reflecting the high degree of protection accorded to domestic agriculture in the first case and the prevalence of excise taxes on petroleum and its products in the second (*see* table 5-6). The highest proportion of imports accorded free entry (over 75 per cent) is in the categories of metals, crude minerals other than fuel, and basic agricultural raw materials such as fibres, hides and skins, and rubber. These are the items which constitute manufacturing inputs and on which there is a tendency to avoid cost-raising obstacles to trade.

Although less prevalent than in the field of manufactures, conventional tariff impediments (whether imposed for protective or for revenue purposes) are widespread among primary commodities, especially among those that have undergone some degree of processing. In the case of many of the primary commodities that are produced in significant quantities in the importing countries themselves, however, non-tariff measures constitute the principal policy impediment to the free flow of international trade. National markets for temperate farm products are surrounded by a complicated network of administrative controls in the industrial countries. Moreover, while internal charges (tariff-like in their effect) are levied for revenue purposes on manufactures as well as on primary commodities, some of the latter are subject to extraordinarily high rates; demand being extremely inelastic with respect to price, such taxes are often regarded as easy sources of revenue.

The general economic consequences of these barriers to trade is the disintegration of the world market. One of the manifestations of this is the price range between the world market on the one hand and various national markets on the other. The more impervious and widespread the barriers, the greater are such price differences likely to be. High prices on national markets moreover tend to stimulate local production; countries become increasingly self-sufficient and the proportion of total output entering international trade tends to decline. The existence of effective obstacles, the spread of prices on national

<sup>8</sup> For a more detailed examination of the policy impediments affecting imports of primary commodities into the major industrial countries, *see* appendix A to this chapter.

<sup>9</sup> In some cases, noted subsequently, it was not possible to distinguish between customs duties (applied at the frontier) and excise taxes (applied at some later point in the movement of the commodity towards the final user). As the customs duty was of a revenue-raising nature, the various levies have in these cases been combined and regarded as a single fiscal charge.

<sup>10</sup> The analysis that follows is based very largely on 1962 import data for its empirical foundation. These data are the latest available in adequate detail; there is no reason to suppose that they do not provide a reasonably accurate and representative picture of the current structure of trade, but their use serves to emphasize the essentially illustrative nature of the statistical material underlying the subsequent evaluation of the commercial policy impediments to imports into the major industrial countries. In interpreting the results, allowance should be made not only for any abnormalities there may have been in the 1962 import structure but also for changes that are continually being made in commercial policy measures and their administration. As far as known, the most important of these changes have been taken into account; and in order to indicate their quantitative significance the new measures—coming into effect in 1963 and January 1964—have been applied to 1962 trade flows. The resultant figures are thus in part hypothetical, built up—as shown in the tables in appendix B—from actual 1962 imports and an evaluation of existing impediments judged to be most germane to the current situation.



Table 5-5. Primary Commodities: Imports into the Major Industrial Countries Subject to Various Types of Policy Impediments,<sup>a</sup> 1962

Type of impediment	Value of imports <sup>b</sup>	
	Million of dollars	Percentage of total
<i>Tariff</i>		
Total <sup>c</sup> .....	6,270	34
Protective duties <sup>d</sup> .....	1,698	
Revenue duties <sup>e</sup> .....	4,572	
<i>Quantitative control<sup>f</sup></i>		
Total .....	4,808	26
Also subject to duty .....	3,175	
Entering duty-free .....	1,630	9
<i>Fiscal charges<sup>g</sup></i>		
Total .....	7,927	43
Subject to duty or quantitative control .....	4,648	
Free of other impediments .....	3,279	18
<i>Without restraint</i>		
Total .....	7,052	39
All primary commodity imports .....	18,231	100

Source: Bureau of General Economic Research and Policies of the United Nations Secretariat, based on national trade statistics and the sources cited in table 5-9 below and appendix table 5B-6.

<sup>a</sup> Belgium, Federal Republic of Germany, France, Italy, Japan, Luxembourg, Netherlands, United Kingdom and United States.

<sup>b</sup> Measured c.i.f. except in the case of the United States.

<sup>c</sup> This total includes an indeterminate—but probably small—amount of trade subject to zero duty. This reflects differences between customs and trade nomenclature which have in some cases made it necessary to apply a single “effective” (positive) rate to imports of a commodity category of which one customs component was subject to zero duty.

<sup>d</sup> Levied on commodities produced in significant quantities in the importing country; excluding duties on petroleum in the Federal Republic of Germany and on petroleum products in the United Kingdom. (These have been classed as fiscal charges.)

<sup>e</sup> Levied on commodities not produced in significant quantities in the importing country; including all duties associated with quantitative controls; excluding duties on tobacco in the United Kingdom (classed as fiscal charges).

<sup>f</sup> Including a number of controls operated in the interest of preferred partner countries.

<sup>g</sup> Taxes levied specifically on the commodity, whether in crude or processed form, by the Central Government of the importing country; including duties on petroleum imports into the Federal Republic of Germany and on tobacco and petroleum imports into the United Kingdom.

Table 5-6. Primary Commodities: Structure of Imports Not Subject to Commercial Policy Impediments in the Major Industrial Countries,<sup>a</sup> 1962

Commodity group	Value of imports <sup>b</sup>			Commodity group	Value of imports <sup>b</sup>		
	Total (millions of dollars)	Not subject to restraint <sup>c</sup>			Total (millions of dollars)	Not subject to restraint <sup>c</sup>	
		Amount (millions of dollars)	Percentage			Amount (millions of dollars)	Percentage
Basic primary foods <sup>d</sup> .....	1,697	222	13	Other agricultural raw ma- terials <sup>f</sup> .....	645	222	34
Fruit and vegetables.....	795	283	36	Organic oils <sup>g</sup> .....	313	70	22
Beverages, spices and to- bacco .....	2,865	1,765 <sup>e</sup>	62	Crude non-fuel minerals.....	276	215	78
Oil-seeds and feeds.....	884	523	59	Metals .....	2,468	1,957	79
Fibres, hides and rubber.....	2,222	2,012	90	Fuels .....	6,066	12	—
				All primary commodities.....	18,231	7,052	39

Source: Bureau of General Economic Research and Policies of the United Nations Secretariat, based on national trade statistics and sources cited in table 5-10 below and appendix table 5B-6.

<sup>a</sup> Belgium, Federal Republic of Germany, France, Italy, Japan, Luxembourg, Netherlands, United Kingdom and United States.

<sup>b</sup> Measured c.i.f., except in the case of the United States.

<sup>c</sup> Tariff, fiscal charge or quantitative control, including control in the interests of preferred partner countries.

<sup>d</sup> Chiefly cereals, meat, sugar and dairy products.

<sup>e</sup> Including duty-free imports of wine from North Africa, estimated at \$166 million.

<sup>f</sup> Including wood.

<sup>g</sup> Vegetable, animal and marine.

markets and the ratio of world trade to world production are thus closely related (*see* table 5-7 and appendix table 5B-4).

The commodities for which the ratio of trade to production tends to be lowest—most notably the temperate farm products, cereals, meat and dairy produce—are generally those in which the barriers to trade are greatest and the spread of internal prices widest.<sup>11</sup> Apart from these products only oranges, ground-nuts and olive oil, among the major commodities, entered world trade to the extent of less than a fifth of production (outside the centrally planned countries) in the period 1959-1961. Other commodities enter world trade to a much greater extent and in general the spread of price is narrower. Where the international market is well integrated—as in the case of such commodities as sisal, cotton, wool, rubber, copra, palm kernels, cocoa and the non-ferrous metals for example—world prices tend to be more representative and the spread in average import unit values is no more than can be accounted for by differences in quality and transport costs.<sup>12</sup> Wholesale prices reflect the incidence of tariffs and other taxes and so the price spread tends to be wider than in the case of import unit values. Even among the heavily traded commodities there is a certain amount of market disintegration, most notably in the case of sugar, where price spreads reflect both preference systems and the effect of differing rates of tax, but also in the case of robusta coffee and bananas, which are also affected by preferences. In general, however, the degree of compartmentalization is greatest where the more rigid forms of quantitative controls are most prevalent.

Whatever the precise nature of the obstacles, they have the common effect—most unwelcome from the viewpoint of the primary exporting countries—of reducing the import content of domestic consumption in the importing countries, either by direct physical limitation or by raising the relative price of the import component. There is a tendency for consumption to be held back both by the higher price and by the failure of factors to move to more productive uses in which incomes would be greater. Moreover, where the commodity is produced in the importing countries and domestic production is stimulated, or at least prevented from declining in the way that relative costs might indicate, there is a further tend-

<sup>11</sup> Maize is the principal exception to this generalization: the predominance of the United States as producer and exporter and the smallness of the crop in the other industrial countries tend to make the ratio of trade to production very high and the spread of import prices very narrow.

<sup>12</sup> Where there is a significant movement of prices in the course of a year, the annual average may be noticeably affected by the distribution of import shipments over time. There was such a movement in a number of commodity prices, particularly among the food-stuffs but also in the agaves, in 1962.

Table 5-7. Primary Commodities: Relationship Between Size of World Market and Price Spread Among Major National Markets,<sup>a</sup> 1961-1962

Ratio of world trade to world production	Number of cases in which range of domestic prices as percentage of world export unit value was			
	0-19	20-39	40-59	60 and over
0-19 .....	1	2	1	5
20-39 .....	1	2	1	2
40-59 .....	2	1	1	—
60 and over .....	6	3	1	—

Source: Appendix table 5B-4.

<sup>a</sup> Support or wholesale price in the Federal Republic of Germany, France, Japan, United Kingdom and United States.

ency for supplies to emerge that are in excess of the amount demanded at the administered or "support" price. In many instances these are disposed of on outside markets, lowering the world price or constricting the outlets available for normal commercial sales. As far as the primary exporting countries are concerned, therefore, the over-all impact of these policy impediments in the industrial countries is to reduce the volume of sales or to lower price (or both) and hence to hold down export earnings.

#### TARIFFS AND TARIFF-LIKE CHARGES

While imports of some primary commodities are free or virtually free of tariffs in the major industrial countries, most are subject to duties or internal charges (or both). In many cases the tariff is the only impediment to imports, but frequently the tariff is accompanied by a barrier of a quantitative nature. The latter tends to constitute the effective obstacle, the duty becoming a form of tax on proceeds. In some cases such duties seem to be in the nature of a carry-over from a period when the tariff was the only form of protection afforded to domestic producers. In other cases—especially where importing is in private hands and not carried out by the State or an authorized monopoly—the duty is designed to appropriate to the government the difference between the c.i.f. (world) price and the higher internal price.

Most primary commodity tariffs are denominated on an *ad valorem* basis, generally as a percentage of c.i.f. value, but in Canada and the United States on f.o.b. value. There are, however, many specific duties—particularly in the United States—denominated in units of the importing country's currency per physical unit of the commodity—and in a number of cases the tariff is a combination of *ad valorem* and specific rates, a floor level usually being set in specific terms. Over and above these tariffs are

internal fiscal charges. When levied on imports they are virtually indistinguishable from revenue duties; indeed it is often a matter of administrative convenience that decides the point at which the tax is collected. Though for comparative purposes such internal charges and import duties are best treated together, the former tend to be of much greater fiscal significance than most individual tariff items. Finally, there are the so-called variable import levies recently introduced by the EEC; these have no fixed value but are designed to tax the import to the extent necessary to raise its landed price to any given level, usually that at which the domestic output of the commodity in question is currently being supported or sold.

The existing array of tariffs and tariff-like charges applying to primary commodities is not easily susceptible of generalization. In each country it reflects the interplay of a large number of influences, most notably the cost structure of domestic production of each commodity, official policy in respect of incomes in the primary sector and the administrative expression of that policy. The fiscal structure of the country is also reflected in the import tariff and the associated complex of commodity taxes. Nor is it only the current situation that determines the tariff: in many respects it is a carry-over from the past, the existence and the rate of particular duties sometimes being related more closely to an historical situation than to the current distribution of production and trade.

Notwithstanding this complexity, certain common features can be discerned in the tariffs of the major industrial countries (*see* table 5-8 and appendix tables 5B-5 and 5B-6). The items that are free or virtually free of tariffs, for example, consist for the most part of raw materials for industry; they include natural rubber, hides, jute, hard fibres and tin, as well as iron ore, pyrites, bauxite, phosphates, manganese ore and other crude minerals. For the rest, tariffs are almost universal, though rates tend to be lower on raw materials and on imports which do not compete with domestic production—fibres, oil-seeds and some of the tropical products, for example—than on commodities which are “supplementary” to domestic output, such as the temperate agricultural products and most of the metals. Closely related to this is a characteristic increase in the level of the tariff according to the degree of processing the commodity has undergone, thus affording protection to domestic processing industries. While most oil-seeds are admitted free, for example, nearly all the industrial countries impose duties on the processed product and these generally rise with the stage of processing, the highest rate being applicable to refined oil intended for food. Similarly, a greater degree of protection is generally accorded to flour than to the grain from which it has been milled; to wrought metals than to unwrought; to dried, cured and other

preserved meat than to carcass meat; to yarn and twine and other fibre products than to the raw fibres.

The generally restrictive incidence of tariffs on the flow of imports into the industrial countries is modified to some extent by the preferential entry which is accorded by several of them to various commodities supplied by associated countries. Because the historical basis of these preferential arrangements has in most cases been the relationship between a metropolitan country and its colonies, the system generally tends to favour the primary exporting countries against their competitors among the industrial countries, notably the United States, which is a major source of many of the commodities affected by the preferences. But the discrimination is also against developing countries that are not participants, most of these being in Latin America and Asia. And one of the elements in this preferential system is at present undergoing a profound modification: the members of the EEC are becoming increasingly the beneficiaries of the preferences implicit in the Common Market. For some commodities this will dilute the advantages hitherto enjoyed by a number of developing countries in the previous preference zones—particularly the franc zone. For other commodities it will widen the market in which advantages of access exist; this will benefit many of the developing countries now associated with the EEC but it will also benefit the primary producers in the EEC itself, particularly France. These developments have important implications for developing countries outside the system seeking to expand exports to the Community.

The economic consequences of these and other economic groupings are examined in a document presented to the United Nations Conference on Trade and Development.<sup>13</sup> In the present context, their significance lies in the extent to which they affect the interpretation of the nature of the tariff barriers. Because of the preferences and the associated commercial relationships, a good deal of primary commodity trade escapes the barriers presented by the general tariff. In 1962, for example, well over \$1 billion of primary commodity imports entered the major industrial countries duty-free as a result of some preferential arrangement; this represents between 6 and 7 per cent of the value of all primary commodities imported by these countries. Thus, while appendix table 5B-5 shows the magnitude of the tariff barriers facing non-preferred exporters, the operative rates at which imports were actually taken in, in 1962, are more realistically indicated in table 5B-6.

The Commonwealth preference system, which in terms of value of trade affected is perhaps the most

<sup>13</sup> United Nations, “Implications of Regional Economic Groupings” (mimeographed document E/CONF.46/31).

Table 5-8. Primary Commodities: Distribution of Effective Tariff Rates of Major Industrial Countries,<sup>a</sup> 1962-1963

Country	Percentage of rates in each commodity category equivalent to											
	0			1-7			8-15			16 and over		
	Temperate food-stuffs <sup>b</sup>	Other agricultural products <sup>c</sup>	Minerals <sup>d</sup>	Temperate food-stuffs <sup>b</sup>	Other agricultural products <sup>c</sup>	Minerals <sup>d</sup>	Temperate food-stuffs <sup>b</sup>	Other agricultural products <sup>c</sup>	Minerals <sup>d</sup>	Temperate food-stuffs <sup>b</sup>	Other agricultural products <sup>c</sup>	Minerals <sup>d</sup>
United States .....	16	47	41	32	19	35	29	14	19	23	20	5
United Kingdom .....	27	53	64	41	17	4	31	28	17	2	2	15
Japan .....	14	59	54	4	3	7	32	30	26	50	7	13
Benelux .....	23	54	71	16	40	27	29	4	2	32	2	—
France .....	7	49	60	25	28	13	27	18	23	41	5	4
Germany, Federal Republic .....	18	53	60	13	23	15	16	21	15	52	3	10
Italy .....	5	33	56	11	46	10	34	21	23	50	—	11
European Economic Community <sup>e</sup> .....	5	49	67	4	24	11	25	25	18	66	2	4

Source: Appendix tables 5B-5 and 5B-6.

<sup>a</sup> See foot-note a of tables 5B-5 and 5B-6, for an explanation of "effective" rate and its derivation.

<sup>b</sup> Including meats, cereals, dairy products, vegetables and deciduous and citrus fruit and tobacco: 44 items.

<sup>c</sup> Including beverage crops, oil-seeds and oils, fibres, rubber and wood: 59 items.

<sup>d</sup> Ores, metals and fuels: 54 items, except for the European Economic Community, for which there are 46 items.

<sup>e</sup> Common external tariff.

important of the currently operative preferential arrangements, involves predominantly free entry into the United Kingdom for imports of many bulk food-stuffs and raw materials for which the general tariff is typically around 10 per cent, along with entry at duties below the most favoured nation rate for a number of other commodities. In 1957, the average margin of preference granted by the United Kingdom was an estimated 6 per cent of food-stuffs and 2 per cent on raw materials.<sup>14</sup> Since then it has not widened. For a number of major commodities, however—including wheat and rice, mutton and lamb, rubber and most hides and skins, and most raw fibres and minerals—entry into the United Kingdom is duty-free irrespective of source. By and large, therefore, the effective primary commodity tariffs tend to be lower in the United Kingdom than in most of the other industrial countries, though for some commodities—the beverage crops, tobacco and some oil-seeds and metals, for example—the rates are above the average for the major industrial countries.

The tariff arrangements of the EEC, involving as they do the creation of new and in many cases substantial tariff preferences for member countries, will in time have a considerable impact on the pattern of trade in those commodities produced in the Community or in the associated countries and territories. The commodities in respect of which the emerging system is likely to affect most seriously the trading positions of primary exporting countries not associated with the Community include not only temperate agricultural products but also tropical bever-

ages, bananas and vegetable oils as well as the principal non-ferrous metals. By and large, the present tariff levels in industrial member countries tend to vary with the relative importance of the primary sector in the domestic economy: duties in Belgium, Luxembourg and the Netherlands are generally lower than those in France and Italy. The common external tariff, being made operative over a steadily increasing number of commodities, is in most cases some intermediate rate. For the commodities being brought under the common agricultural policy, however, determinate duties are being replaced by variable levies which constitute an adjustable barrier designed to rule out the possibility of an import being available at a price lower than that fixed for the output of local producers.

The United States as a leading primary producer tends to have a tariff structure that protects over a wider range of commodities than most of the other industrial countries. Specific rates are far more prevalent than elsewhere, so that the incidence of the tariff has tended to become heavier as prices declined during the nineteen fifties. United States *ad valorem* rates, on the other hand, are charged on f.o.b. values, thus reducing their absolute amount appreciably below what an equivalent duty would realize on the c.i.f. values that are commonly used in the other industrial countries.

The vestiges of the preferences granted by the United States to the Philippines under the 1930 Tariff Agreement are still in force, though under the 1955 Trade Agreement zero duties are gradually being raised to "most favoured nation" level and the preference will have disappeared by 1974. The most significant preferences now in force are in re-

<sup>14</sup> Political and Economic Planning, *Commonwealth Preference in the United Kingdom* (London, 1960).

spect of sugar, tobacco and hardwoods, and on a smaller scale, certain fruits, nuts and minerals.

Japan also has a wide-ranging protective tariff. Free entry is confined largely to essential raw material imports, most notably the oil-seeds, fibres, wood, rubber and crude minerals.

Over and above the duties set out in the customs tariff, most countries levy various excise taxes on primary commodities. Unlike the tariff, whose main function is generally to protect domestic producers against the competition of lower priced imports, these excise taxes usually have a fiscal purpose. In most cases such taxes are levied without regard to the source of the commodity and are therefore not a barrier to imports as such, even though they may depress consumption somewhat by raising the price that the final user has to pay.<sup>15</sup> Where the com-

<sup>15</sup> In most cases this effect is not of great significance or the tax would be self-defeating. The commodities generally subject to such taxes are selected in part because demand for them is not very responsive to price changes.

modity is wholly or mainly of imported origin, however, fiscal taxes of this nature are hardly distinguishable from customs duties: the difference may involve no more than the point at which the tax is levied—at the frontier or at the warehouse, processing mill or packing and distributing depot. In some cases the commodity may be subject to tax (or to additional tax) at the final stage of its movement to consumer: special levies on such products as cigarettes, chocolate and motor spirit are widespread, for example, and to some extent, however small, they are likely to inhibit the use of the underlying commodity—tobacco, cocoa beans and petroleum.

Many commodities are subject to fiscal taxes but in the context of the present chapter the most significant are sugar, tobacco, the beverage crops, oil-seeds and oils and petroleum and some of its products. These are the items on which fiscal taxes tend to be heaviest, most widespread and most frequently borne largely if not entirely by imports (*see* table 5-9). Because of the inelasticity of demand, the in-

Table 5-9. Fiscal Taxes Affecting Primary Commodity Imports,<sup>a</sup> 1962

(Percentage, ad valorem or equivalent)

Commodity	United States	United Kingdom	Japan	Belgium-Luxembourg	Federal Republic of Germany	France	Italy	Netherlands
Sugar <sup>b</sup>	14	71	53	33	46	—	130	83
Coffee, raw	—	—	10	—	99	42	134	—
Cocoa, beans	—	—	—	12	—	3	74	5
Tea	—	—	—	—	71	25	—	—
Tobacco <sup>c</sup>	196	1,200	40	...	450	540	200	390
Oil-seeds	77 <sup>d</sup>	—	—	6	4 <sup>d</sup>	—	e	—
Vegetable oil	30 <sup>f</sup> –53 <sup>g</sup>	—	—	6–8	3–4	6 <sup>h</sup> –10 <sup>g</sup>	e	—
Petroleum <sup>i</sup>	20	76	39	221	148	101	55	56
Wine	80	23	—	...	19	17	17	50

Source: Bureau of General Economic Research and Policies of the United Nations Secretariat, based on information from Food and Agriculture Organization of the United Nations, *State of Food and Agriculture*, 1962 and 1963 (Rome); Commonwealth Economic Committee, *Plantation Crops*, 1963 (London); General Agreement on Tariffs and Trade, document W(62)2 and AC/5, 14 October 1963 (Geneva); International Sugar Council, *The World Sugar Economy*, vol. I (London); Government of the Federal Republic of Germany, *Bundeshaushaltsplan für das Rechnungsjahr 1963*; Ministère des Finances, *Bulletin de documentation* (Brussels, January 1963); Ministère des Finances, *Compte définitif des recettes du budget général pour l'année 1961* (Paris); United States Bureau of the Budget, *The Budget of the United States Government* (fiscal year ending 30 June 1964); Banco di Roma, *Review of the Economic Conditions in Italy*, September 1963; Ministero del Tesoro, *Nota Introduttiva al Bilancio de Previsione*, 1959–1960 (Rome); Tax Bureau of Japan, *An Outline of Japanese Tax*, 1963; Central Statistical Office, *National Income and Expenditure* (London, 1963); Mona Palmer Publishing Company, *World Petroleum Report*, vol. VIII (New York, February 1962).

<sup>a</sup> As far as possible the rates refer only to taxes levied by the Central Government on the primary commodity, crude and processed. *See also* appendix tables 5B-5 and 5B-6 for customs duties on these commodities.

<sup>b</sup> Specific taxes have been converted to *ad valorem* equivalent on the basis of world average export unit values.

<sup>c</sup> Including central government taxes on tobacco products. In the case of the United Kingdom, the rate includes customs duties on raw tobacco.

<sup>d</sup> Copra.

<sup>e</sup> Equalization tax on oil extracted.

<sup>f</sup> Palm kernel oil.

<sup>g</sup> Coconut oil.

<sup>h</sup> Olive oil.

<sup>i</sup> Crude and products. In the case of the Federal Republic of Germany, France, Italy, Japan, the United Kingdom and the United States, rates have been computed by first apportioning total petroleum tax collections between domestic crude and products on the one hand and imported products and products refined from imported crude on the other and then dividing the latter (imported) component of collections by the sum of value of imported products and imported crude inflated by 50 per cent to allow for value added by domestic refineries before tax. The figure for Belgium represents excise taxes on imported petroleum products and that for the Netherlands, special duties on imported products and products refined from imported crude, weighted in each case by the value of imports plus domestic production of the product concerned. In the case of the Federal Republic of Germany and the United Kingdom, the rates specified include customs duties as well as excise taxes.

cidence of such taxes probably tends to fall mainly on consumers, but in varying degree producers are also affected: imports are likely to be smaller in volume and lower in unit value than they would otherwise be.

In this respect therefore fiscal taxes on imports constitute the same type of barrier as ordinary customs duties. In so far as the latter are for revenue purposes their economic effects are identical to those of fiscal taxes. In practice the principal difference generally lies in the fact that, being levied on commodities for which demand is unresponsive to price changes over a relatively large range, fiscal taxes tend to reach much higher rates than conventional tariffs.

For present purposes, tariffs which do not perform an obviously protective function—when, for example, there is no domestic production of the commodity in question—have been classified as revenue-raising. Such duties are not often used actively as fiscal instruments; and demand not being as inelastic as in the case of commodities subject to fiscal charges, it is probable that a somewhat larger share of the incidence falls on the producer. Hence, from the point of view of the exporting country, such revenue tariffs have the effect of reducing the amount of the commodity that can be sold, and also—depending on the conditions of supply—the price at which it is actually sold.

Protective tariffs are not designed to perform a fiscal function: the more effective the protection the less the trade flow and the smaller the tax collection. Thus, while collections provide some measure of the burden of revenue tariffs, they are no guide to effectiveness of protective tariffs. In many cases, indeed, tariffs that were originally designed to be protective have been supplemented and sometimes superseded by other barriers to entry. When imports are regulated in some other way, the tariff tends to become a straightforward tax measure, the exporter receiving just so much less for sales whose volume is otherwise determined. By means of such tariffs, governments may seek to capture the difference between world market and a higher domestic price.

To judge by the trade flows of 1962 and the commercial policy impediments prevailing in 1963, almost 60 per cent of the primary commodity imports of the major industrial countries are free of general tariffs.<sup>16</sup> If allowance is made for imports admitted duty-free under preferential arrangements, the proportion actually paying duties is only about 34 per cent—\$6.3

billion out of imports valued at \$18.2 billion (*see* table 5-10).

Trade subject to protective tariffs is spread fairly uniformly across the commodity spectrum: the groups least affected—less than one-eighth of the value of imports—are crude minerals, agricultural raw materials and the tropical beverages and spices.<sup>17</sup> Revenue tariffs are much more concentrated—on fuels, beverages and tobacco and basic food-stuffs, particularly sugar. This is in part a reflection of the fact that duties imposed on items, imports of which are limited quantitatively, are here regarded as of a revenue-raising nature but it also reflects the low elasticity of demand for many of these commodities. This is borne out by the fact that it is these groups that contribute the overwhelming bulk of the revenue raised by internal fiscal charges.

#### NON-TARIFF MEASURES

In 1962 about \$5 billion of the primary commodity imports of the major industrial countries—over a fourth of the total—entered under some system of quantitative control. The principal groups so affected were fuels and the basic food-stuffs derived from temperate agriculture.<sup>18</sup> Some of the controls involved were exercised on behalf of a preferred source of the commodity outside the importing country, most notably in the case of France in respect of various commodities imported from franc zone countries but also in the case of Italy and the United Kingdom in respect of bananas. The great majority of the controls, however, were designed as a means for protecting domestic producers.

The spread of non-tariff measures to regulate trade in primary commodities reflects—and also serves to accentuate—the disintegration of the world market and the widening of the gap between prices on internal (insulated) markets and those realized on the free (and often residual) market on which exports are sold. The wider or less stable that gap, the less satisfactory are conventional tariffs likely to prove as a regulating device. The introduction of variable tariffs, referred to in the previous section, represents a recent response to that situation. More frequent has been the use of quantitative controls to limit the intake of imports to the extent necessary to provide, along with domestic production, the supply required to meet total internal demand at the given administered price.

Where quantitative controls exist they undoubtedly constitute a greater obstacle to trade than do ordinary

<sup>16</sup> If imports of petroleum into the Federal Republic of Germany and tobacco and petroleum products into the United Kingdom are included, the dutiable proportion would amount to \$7.3 billion or about 47 per cent of total primary commodity imports.

<sup>17</sup> Care must be exercised in interpreting trade flows as a measure of the breadth or severity of any commercial policy obstacle. Beyond a certain, but indeterminate, point, it is the smallness of imports that indicates the effectiveness of a trade barrier.

<sup>18</sup> *See* foot-note 17.

Table 5-10. Primary Commodity Imports of Major Industrial Countries from Developing Countries: Distribution According to Commercial Policy Barrier, 1962

Commodity group	Total value of imports <sup>a</sup> (millions of dollars)	Value of imports <sup>a</sup> (millions of dollars) of commodities subject to					
		Zero duty		Revenue tariff <sup>b</sup>	Fiscal charges <sup>c</sup>	Protective tariffs <sup>d</sup>	Quantitative control <sup>e</sup>
		General	Preferential				
Basic primary foods <sup>f</sup> .....	1,697	412	95	507	810	725	1,083
Fruit and vegetables.....	795	180	170	350	333	—	326
Beverages, spices and tobacco <sup>g</sup> .....	2,865	1,299	610 <sup>h</sup>	1,909	912	1,036	513
Oil-seeds and feeds.....	884	537	161	698	70	69	155
Fibres, hides and rubber....	2,222	2,019	3	2,022	46	—	35
Other agricultural raw materials <sup>i</sup> .....	645	349	52	401	39	—	180
Organic oils <sup>j</sup> .....	313	17	88	105	89	54	88
Non-metallic minerals.....	276	230	13	243	1	—	28
Metals and ores.....	2,468	1,959	1	1,960	56	—	56
Fuels <sup>k</sup> .....	6,066	3,763	3	3,766	2,216	6,042	2,344
All primary commodities...	18,231	10,765	1,196	11,961	4,572	7,927	4,808

Source: Bureau of General Economic Research and Policies of the United Nations Secretariat, based on national trade statistics and the commercial policy information in the sources cited in table 5-9 above and appendix tables 5B-5 and 5B-7.

<sup>a</sup> Measured c.i.f. except in the case of the United States.

<sup>b</sup> Levied on commodities not produced in significant quantities in the importing country; including all tariffs associated with quantitative barriers; excluding tobacco duties in the United Kingdom.

<sup>c</sup> Including duties on petroleum in the Federal Republic of Germany and on tobacco and petroleum in the United Kingdom.

<sup>d</sup> Levied on commodities produced in significant quantities in the importing country; excluding duties on petroleum

in the Federal Republic of Germany and the United Kingdom.

<sup>e</sup> Including a number of instances in which the quantitative control is operated in the interests of preferred partner countries.

<sup>f</sup> Chiefly cereals, meat, sugar and dairy products.

<sup>g</sup> Imports of petroleum in the Federal Republic of Germany and of tobacco and petroleum into the United Kingdom have been classified as entering duty-free, subject to a fiscal charge which absorbs the duty.

<sup>h</sup> Including duty-free imports of wine from North Africa, estimated at \$166 million.

<sup>i</sup> Including wood.

<sup>j</sup> Vegetable, animal and marine.

tariffs. The power to increase exports is taken out of the exporters' hands completely; price competition is eliminated; the volume of trade depends on decisions taken in importing countries regarding internal prices and—the level of domestic consumption being thereby determined within fairly narrow limits—on the subsequent response of local producers.

The methods of achieving quantitative control of imports are largely a matter of administrative convenience. They depend in the main on the machinery used for stabilizing the internal market and giving effect to domestic price and income policies in respect of the commodity in question. Where an authorized monopoly governs the internal trade, it is likely to buy from abroad—on an *ad hoc* basis or in terms of bilateral agreements with particular exporters—the supplies necessary to maintain equilibrium on the domestic market. In other situations control may be secured by means of explicit quotas, declared periodically and allocated either to importers within the country or to exporting countries, depending on how the trade is organized. In some cases a balance is secured between domestic and imported produce by means of so-called "mixing

regulations" which make it mandatory for users to absorb specified proportions of the local output. In some instances imports may be prohibited altogether, especially where there are stringent quality standards governing domestic production—for sanitary reasons, for example.

On a broader view, not only overt controls of this nature need to be regarded as barriers to international trade. The domestic support systems, of which such controls are merely the outward manifestation, are the underlying source of restraint. In so far as price and income policies result in production from internal resources that could not be so used if their output had to be sold in open competition, the market on which the output of unsubsidized producers in other countries can be disposed is narrowed. Even more disruptive of international trade is the export of subsidized output, made possible when support policies encourage production in excess of what is required to meet internal needs at the given price.

Appendix table 5B-7 presents an over-all view of the distribution of such measures—both internal market interventions and quantitative restraints on imports—among the major industrial countries. Al-

lowing for the inevitable vagueness attendant on such summarization and the essential flexibility of such measures, it is clear that they are characteristic of the market for most of the products of temperate agriculture, but also affect some of the commodities that compete with such farm products, most notably the oil-seeds and vegetable oils. In contrast, among the tropical produce and the raw materials for industry, both agricultural and mineral, non-tariff measures are the exception rather than the rule. And in some instances, as noted above—petroleum for example—the restraints that exist in certain countries are designed not to limit total quantity but rather as a means of implementing preference policies or bilateral agreements.

The prevalence of quantitative restrictions on imports of bulk food-stuffs is illustrated by the fact that, in 1962, of a group of thirty-four countries—including all the industrial importers—more than two-thirds applied such restraints to imports of sugar and some or all types of meat, fish, cereals, dairy products and vegetable oils. Countries restricting imports in this way accounted for over half the world production of sugar and cheese and over 80 per cent of world production of butter and wheat.<sup>19</sup>

Two characteristics of farm products—the variability of crops from season to season and the relatively inelastic nature of demand, which causes prices to fluctuate sharply with changes in supply—help to explain the emphasis placed by major importing countries on the regulation of the volume of foreign supplies of such products in order to achieve an acceptable degree of stability on the domestic market. Added to this is the need felt by Governments to prevent any undue deterioration in the terms of trade of agriculture. This leads to the fixing of the prices of farm outputs in accordance with some measure—historical or *ad hoc*—of “parity” with farm inputs. Such prices cannot be sustained in the absence of control over supply. This can often be achieved more readily by regulation of imports than by control over domestic production: hence the need for quantitative or “administrative” import barriers capable of fairly precise or rapid adjustment.

The degree of restrictiveness which in practice and in the long run attaches to this protective technique depends to a large extent on the character of the basic policies towards the primary sector—or particular classes of producer in that sector—in the industrial countries. This is partly a question of price relationships, fiscal advantages and production controls, but it also depends on technological devel-

opments, the over-all rate of economic growth and the effectiveness of machinery available to facilitate structural change. Quantitative restraints do not of themselves rule out the expansion of imports. This depends on the impact of many factors on the trend of local production in relation to over-all effective demand.

Among the major industrial countries, formal quantitative controls are fewest in the United Kingdom where for most primary commodities importation is unrestricted within the limits set by subsidized domestic production. While with the exception of sugar, which is purchased from abroad at a negotiated price, market prices are free, domestic producer prices are generally guaranteed through a deficiency payment system designed to assure the farming population—in the words of the Agriculture Act of 1947—“proper remuneration and living conditions . . . and an adequate return on capital invested in the industry”. In addition, the Government provides farm production grants and grants for long-term farm improvements.

In May 1963 the United Kingdom Government announced certain impending changes in agricultural policy including, in particular, measures controlling imports or import prices of cereals and fatstock and limiting price guarantees to prescribed “standard quantities”. It was stated that whilst the Government adhered to the system of support through guaranteed prices and deficiency payments, it intended to adapt it to existing circumstances in order to bring about greater market stability. The standard quantity principle had already been applied to a number of commodities, including milk and eggs. In working out a “proper” balance between home grown and imported food, the Government would start from “broadly the present level of supplies” and would endeavour to “iron out the more violent fluctuations in the market, i.e., put a floor in the market”.<sup>20</sup> Overseas suppliers were to be consulted about the detailed arrangements.

For many commodities the United Kingdom market has constituted a major component of the “world” market. Limitation of access to it would greatly reduce—and in some cases virtually eliminate—what is left of the “free” market. Supplies available in exporting countries in excess of those for which quota provision has been made in importing countries would have no effective commercial outlet. This would now appear to be the situation in respect to butter.

The United States, in pursuance of its aim of assuring farmers what is considered a reasonable (usually historical) relationship between the prices

<sup>19</sup> General Agreement on Tariffs and Trade (GATT), Programme for Expansion of International Trade, *Trade in Agricultural Products*, second and third reports of Committee II (Geneva, 1962), page 18.

<sup>20</sup> See Commonwealth Economic Committee, *Intelligence Bulletin* (London, June 1963), page 39.



of their main products and the prices they pay for goods and services, provides support for selected farm products through loans, purchases and purchase agreements administered through the Commodity Credit Corporation. Deficiency payments are used to support production in only one case, namely, wool and mohair. Direct price support is in some cases accompanied by limits on areas under cultivation or by marketing quotas. The system of domestic support for the main commodities—wheat, cotton, groundnuts and dairy products—is complemented by quantitative import restrictions designed to prevent imports from materially interfering with domestic agricultural arrangements.

Japan supports the prices of grains, sugar, milk, certain oil-seeds and tobacco through the operations of state trading enterprises and complementary restrictions on imports. Existing legislation authorizes the Government to establish stabilization prices for meats also.

The countries of the EEC operate systems of target and floor (or intervention) prices for most of the temperate farm products and, as in the case of the other major industrial countries, these are considerably above world free market prices. Production is also supported by direct grants or subsidies for specific farm purposes, such as the purchase of fertilizer. In some cases the market is regulated

through a state monopoly which undertakes or licenses all imports. In the Federal Republic of Germany, for example, imports of grains, sugar, meats, milk and fats are regulated by government agencies, which appropriate the difference between external and internal prices: proposed imports must be offered for purchase to the competent agencies which may then resell the produce to the importers at a fixed price.

These national arrangements are in the process of being supplanted by new régimes under the Community's common agricultural policy. The common régimes for cereals (other than rice), pigments, poultry and eggs are now in the transitional stage; regulations of a comparable nature were adopted late in 1963 for beef and veal, rice and dairy products. Arrangements for sugar and fats and oils other than butter are still to be promulgated. In essence, the import régime being adopted for commodities covered under the common agricultural policy is a levy system designed to maintain the general level of protection which currently prevails in the member States. Broadly speaking, variable levies are to be imposed to make up the difference between fixed internal prices (or their frontier equivalents) and "world" prices. Where necessary for the stabilization of the domestic market, quantitative import restrictions may also be imposed.

### Liberalization of primary commodity trade: Problems and possibilities

The interest of the developing countries in the liberalization of international trade in primary commodities rests on the assumption that the opening up of markets in the industrial countries will lead to an expansion of their export earnings. Before the prospects for such an expansion are examined, it is necessary to discuss, at least in a general way, the conditions that would first have to be fulfilled, namely, that the industrial countries should be able to accommodate themselves to the consequences of the lowering of barriers and that the developing countries should be able to provide the additional supplies of the products that have been liberalized at prices competitive with those of other sources.

As indicated in the previous section, the barriers that are to be lowered are essentially of two kinds—revenue-raising and protective. At a minimum, therefore, the lowering of the barrier will have fiscal consequences; but it may also, in varying degree and for varying periods, affect the balance of payments and the employment and production structure of the importing country. Structural adjustments

may also have fiscal implications, both direct and indirect.

In general, the industrial countries do not rely very heavily on the revenue raised from taxes on primary commodities. In so far as customs duties do not serve a protective purpose, therefore, no great difficulty would be occasioned by their reduction or even elimination: for the great majority of commodities the loss in revenue that would follow tariff liberalization could fairly readily be accommodated by minor modifications in fiscal structure.

There are two groups of commodities that are exceptions to this generalization, however: the traditional luxury items, beverages and tobacco, and the products of petroleum. For these commodities, demand is particularly unresponsive to changes in price and in many countries they have long been the object of sumptuary taxes and revenue-raising customs duties. The point at which these duties and taxes are levied, in the movement of the commodity from original producer to final consumer, differs from country to country. The extent to which such

levies discriminate against imports, as against domestic production, also differs among countries. In these cases, moreover, liberalization raises questions not only of how to administer the process equitably and how to make good the resultant fiscal losses, but even of public policy: Governments may not want to be put in the position of seeming to encourage the consumption of tobacco or wine, for example, by facilitating reductions in their price. To this extent there are likely to be some reservations to a general principle that might otherwise find widespread acceptance, namely, that industrial countries should not levy taxes on primary commodities originating in the developing countries.

The effect of reducing or abolishing an import duty will be to lower its landed price and hence to expand consumption and to that extent increase imports of the commodity in question. Whatever the magnitude of the increase, there would be some gain to the exporting countries. However, apart from the fiscal charges mentioned above, duties on primary commodities are generally a small proportion of c.i.f. cost and an even smaller proportion of the price paid by the final consumer. And for most commodities the response of the consumer to a small change in price is itself likely to be still smaller. Thus the impact on the import bill of the industrial country that removes a revenue tariff of this nature is not likely to be significant. By the same token, the expansion in export proceeds awaiting the exporting countries might be quite small in absolute terms; it would be made up of some increase in volume (reflecting the increase in consumption) and some increase in price (representing a share in the duty proceeds now relinquished).

Where the tariff is a protective device rather than a means of raising revenue, the results of any reduction in the rates of duty are likely to be much greater. From the existence of protection it may be inferred that there is a high degree of substitutability between the imported and the locally produced commodity, and that part, at least, of the domestic output is produced at costs above the level at which the import can be landed. The critical dimension in these circumstances is the distribution of domestic costs, particularly the proportion of production with unit costs above those of the substitutable import. About two-thirds of the primary exports from developing countries to industrial countries are supplementary, in the sense that they add to the supply produced domestically in some or all of the latter (*see* table 5-2 above). But the extent to which imports can undersell domestic output differs greatly from commodity to commodity and from country to country. At the one extreme are cases in which duty-free entry of imports would have only a marginal impact on the

demand for local production. At the other end of the scale—the local cost structure being more heavily weighted by less productive units, natural shelter less effective, institutional ties looser or consumer preferences less favourable—a cut in duty might expose domestic producers to severe competition.

The weaker the position of agriculture or mining in the importing country, the higher is the protective duty likely to be and at the limit, as indicated in the preceding section, the domestic producer tends to be insulated by quantitative barriers behind which independent official price and income policies can be implemented. Thus, in general, the dismantling of such quantitative systems of import control is likely to be a more disruptive process than the reduction of tariff: it will generally involve the integration with the world economy of a sector of the national economy that had previously been deliberately isolated in the interest of a specific production or income policy. Here again, however, the situation differs widely among commodities and among countries. The feasibility, the cost and the consequences of any liberalizing action—an increase in import quotas, for example—depend on such factors as the number of domestic producers involved, the strategic importance of the commodity, the degree of self-sufficiency, and the spread between external and internal prices. Determinants of this nature obviously range over a wide spectrum.

The real costs of a given liberalizing measure lie chiefly in the displacement of marginal domestic factors that cannot produce profitably at the new internal price, reduced as this would be by the advent of increased supplies from abroad. In principle, in a dynamic economy, these are transitional costs. Their magnitude depends primarily on the speed and smoothness with which the displaced factors can be redeployed in expanding sectors of the economy. The greater the extent of restructuring required, the less flexible the resources involved, the slower the rate of growth of other sectors, the more difficult and costly would such an operation become. Apart from the internal fiscal costs that might be incurred, there would also be some external costs to meet an import bill that would be enlarged both by an increase in volume and in most cases—at least in the first instance—by an increase in world market price.

Offsetting these costs in varying degree would be a reduction in the price paid by domestic users. This might be only marginal where the liberalization consisted in the removal of a low tariff, but it could be quite significant where high rates of tax had been levied or where the gap between domestic support and world market price had been very wide. In the EEC, for example, the effect of the price gap in the case of supported agricultural products alone

has been estimated at the equivalent of \$3 billion a year.<sup>21</sup> A similar, though smaller, bill is borne by consumers in the United States.<sup>22</sup>

There would also be some relief to taxpayers where subsidies paid directly to primary producers might be expected to decline as submarginal farms and mines dropped out. In the United Kingdom the bill for direct support to agriculture has approached \$1 billion in recent years and in the United States price subsidies have accounted for between \$3 billion and \$4 billion a year.<sup>23</sup> Against such budgetary savings would have to be set the costs that might have to be borne in connexion with retraining and resettling displaced primary workers.

Much more important in the long run would be the gains accruing from a more economical deployment of resources internally and a more productive division of labour globally. These gains would be widely diffused and not readily measurable but they would probably begin to take effect almost immediately as the additional purchasing power put in the hands of the developing countries was reflected in increased demand for imports from the industrial countries.

To maximize the gains and minimize the costs, a liberalization programme would have to be cast in the widest possible framework. The greater the number of industrial countries participating and the broader the range of commodities covered, the less disruptive is the incidence of the programme likely to be—that is, per dollar of trade expansion the lower will tend to be each country's real redeployment costs and the wider the spread of new demand for the products of its export industries.

The need for a broad programme—as against one that is aimed at the liberalization of trade in particular commodities—is also indicated by the very diversity obtaining among the industrial countries. The nature of this diversity in respect to the form and magnitude of the prevailing obstacles to trade was indicated in the preceding section of this chapter.

<sup>21</sup> This is an estimate of the subsidies that would have been necessary in 1960 to provide deficiency payments to maintain the income of domestic farmers if their produce had been sold at world prices. See the statement of Dr. Mansholt to the European Parliamentary Assembly, 1 April 1960.

<sup>22</sup> For the main commodities subject to quantitative import controls, the difference made by valuing consumption at world average export unit values instead of domestic (support) prices was of the order of \$1 billion in 1961—between \$300 million and \$400 million each for sugar and butter, about \$150 million for cotton and around \$50 million each for wheat, ground-nuts and lead and zinc.

<sup>23</sup> The outlay of consumers and taxpayers in the EEC, the United Kingdom and the United States in support of domestic agriculture (employing less than 30 million workers) is thus of the order of \$10 billion a year—more than half of their outlay on imports of all primary products from the developing countries.

But no less significant from the standpoint of a concerted programme is the diversity in respect of structure of domestic production and composition of imports. The relative magnitude of total imports ranges from less than 4 per cent of gross domestic product in the United States to over 40 per cent in the Netherlands. Imports of primary commodities amount to about 2 per cent of gross domestic product in the United States compared with about 17 per cent in Belgium-Luxembourg and the Netherlands. Primary commodities constitute less than 40 per cent of all imports into the Netherlands, however, compared with about 58 per cent in the United States, about 68 per cent in the United Kingdom and about 75 per cent in Japan. And of all primary commodity imports those coming from the primary exporting countries constitute only about 17 per cent in Belgium-Luxembourg and the Netherlands compared with about 37 per cent in the United Kingdom and the United States and 46 per cent in Japan. In relation to gross domestic product, on the other hand, primary commodity imports from the primary exporting countries are almost six times as great in Belgium-Luxembourg, the Netherlands and the United Kingdom as in the United States (*see* table 5-11).

The total intake of imported primary commodities by the industrial countries is not only of substantially different significance in the structure of the economy but its composition also differs considerably from one industrial country to another. This is the obverse of the differences, illustrated in table 5-1 above, in the degree of self-sufficiency in respect of individual commodities. It is to these differences that the diversity of existing trade-obstructing measures is a more or less inevitable corollary. Since for each commodity the required adjustments will differ widely from country to country, the broader the programme the less difficulty is this likely to present.

Like the underlying conditions in the importing countries, the determinants of the trade-expanding effects of a liberalization programme from the side of the exporting countries are also extremely diverse: conditions for rapid expansion of exports vary widely from country to country and from commodity to commodity. In the present context inter-country differences can be ignored: the programme will presumably aim in the first instance to expand the export earnings of the developing countries as a group rather than the exports of particular countries. Commodity differences, however, are no less wide-ranging and some of them raise fundamental problems for the nature and scope of any programme of liberalization.

For some commodities the developing countries already possess the capacity to increase supplies over

Table 5-11. Industrial Countries: Imports from the Primary Exporting Countries, 1962

Country	Gross domestic product, 1961 (billions of dollars)	Imports of all goods					Imports of primary commodities						
		Total		From primary exporting countries			Total		From primary exporting countries				
		Millions of dollars	As per-centage of gross domestic product	Millions of dollars	As percentage of		Millions of dollars	As percentage of	Millions of dollars	As percentage of			
					All imports	Gross domestic product				All imports	All imports from primary exporting countries	Gross domestic product	
United States <sup>a</sup> .....	516.6	17,971	3.5	7,600	42.3	1.5	10,100	56.2	2.0	6,800	37.8	89.5	1.3
United Kingdom .....	75.3	12,577	16.7	5,352	42.6	7.1	8,520	67.7	11.3	4,700	37.4	87.8	6.2
Japan .....	47.5	5,637	11.9	2,736	48.5	5.8	4,220	74.9	8.9	2,618	46.4	95.7	5.5
European Economic Community.	205.1	35,755	17.4	9,079	25.4	4.4	18,480	51.7	9.0	8,338	23.3	91.8	4.1
Belgium-Luxembourg .....	12.5	4,555	36.6	860	18.9	6.9	2,107	46.3	16.9	803	17.6	93.4	6.4
France .....	63.3	7,517	11.9	2,862	38.1	4.5	4,266	56.8	6.7	2,519	33.5	88.0	4.0
Germany, Federal Republic of	81.8	12,279	15.0	2,799	22.8	3.4	6,665	54.3	8.1	2,597	21.1	92.8	3.2
Italy .....	35.3	6,056	17.2	1,578	26.1	4.5	3,371	55.7	9.6	1,528	25.2	96.8	4.3
Netherlands .....	12.3	5,348	43.6	980	18.3	8.0	2,071	38.7	16.9	891	16.7	90.9	7.3
Other industrial countries <sup>b</sup> .....	97.6	21,282	21.8	2,367	11.1	2.4	6,561	31.0	6.7	2,238	10.5	95.1	2.3
TOTAL of above	942.1	93,222	9.9	27,134	29.1	2.9	47,881	51.4	5.1	24,694	26.5	91.1	2.8

Source: Bureau of General Economic Research and Policies of the United Nations Secretariat, based on national sources.

<sup>a</sup> Trade figures have been adjusted to a c.i.f. basis. The original f.o.b. figures

were: total imports, \$16,247 million, imports of primary commodities, \$8,713 million in total, \$5,775 million from the primary exporting countries.

<sup>b</sup> Austria, Canada, Denmark, Finland, Greece, Iceland, Ireland, Norway, Portugal, Sweden, Switzerland, Turkey.

and above the amounts yielded by normal growth and for these—coffee, petroleum, tungsten, for example—any widening or improvement in the terms of access to the markets of the industrial countries would rapidly bear fruit in expanded exports. For other commodities export capacity could readily be expanded over time—a year or two in the case of the perennial crops, somewhat longer for most of the minerals, and up to five or seven years in the case of the three crops such as cocoa or rubber. Given assurance about markets, the appropriate investment for the required output would undoubtedly be forthcoming.

For a liberalization programme intended to expand the export opportunities of the developing countries, the problem lies in those commodities of which these countries are minority suppliers and for which their prospects for expansion are, for whatever reason, inferior to those in competing sources in the industrial and centrally planned countries. This situation is most acute in the case of the agricultural commodities for which mechanization and other technological advances have in recent years greatly increased productivity in the industrial countries, for in respect of these items the developing countries not only lack the comparative advantages of factor endowment that they enjoy in many other items but also find their domestic demand growing most rapidly. But the problem extends to many other commodities, particularly among the more processed forms—which, because of their industrializing potential, are the most desirable to encourage—since these tend to be the most demanding of the capital, skills and infrastructure that developing countries often lack.

The problem posed by a supply elasticity that is lower than that of competing sources has a time dimension: like the problem of economic development itself, it is in some respects one of lag. It raises the question whether it is possible to incorporate into a liberalization programme some compensating mechanism giving the developing countries the benefit of freer access in advance of other countries. Preferential arrangements of this nature are also likely to be more easily accommodated within a programme that involves action along a broad front and over a number of years than through single commodity negotiations in which inter-country diversity may make it harder to reconcile conflicting interests.

#### LIBERALIZATION UNDER THE GATT

The shift in emphasis from a narrower commodity-by-commodity approach to a more general programme of liberalization of imports into the industrial countries is illustrated in the five years of discussion within the GATT framework that followed

the enunciation of a “Programme for the Expansion of International Trade” based on the recommendations of a panel of experts in a study completed in 1958.<sup>24</sup> Apart from policy suggestions designed to accelerate GATT procedures for tariff reduction, the programme was intended to broaden the scope of GATT in considering additional measures for increasing the access to world markets for agricultural commodities and other primary and processed products which the less developed countries might produce in greater quantity for export. Two special committees were formed to consider these new aspects of GATT’s concern. One (known as Committee II) was to examine the problems of international trade arising from the agricultural protectionist policies of the industrialized countries, and the other (Committee III) to devote its attention to other restrictive practices impeding the flow of exports of primary, processed and manufactured products from the less developed countries to the industrialized countries.

These committees tackled their assigned terms of reference essentially on a commodity basis. Committee II concentrated on a number of basic foodstuffs—dairy products, meat and fish, cereals and flour, sugar and wine—accounting in 1962 for about 15 per cent of the primary commodity imports of the industrial countries. Of their imports of primary commodities from the primary exporting countries, the Committee II products accounted for 13 per cent and of their imports of primary commodities from the developing countries, about 10 per cent. Committee III dealt with a series of commodities nominated, in successive lists, by participating countries. The items on the first of these lists, drawn up in 1959, accounted for rather less than 30 per cent of the flow of primary commodity trade between the developing countries and the industrial countries in 1962; the second and third lists increased this proportion by 4 per cent in 1960, and 2 per cent in 1961 respectively, and in 1963 a fourth list was added, raising the over-all proportion that commodities under Committee III’s scrutiny constituted of the trade flow in question to about 47 per cent (*see* table 5-12).

In November 1961, three years after the adoption of the original programme, Committee III issued a special report reviewing the obstacles and the progress made in reducing them and concluding that “insufficient progress has been made . . . [and] prompt and positive action by governments is re-

<sup>24</sup> General Agreement on Tariffs and Trade, *Trends in International Trade*, a report by a panel of experts (Geneva), October 1958. This report has also come to be known as the “Haberler Report”. The study examined the basic trends in the field of international commodity trade with special reference to “the failure of the trade of the less developed countries to develop as rapidly as that of the industrialized countries, excessive short-term fluctuations in prices of primary products and wide-spread resort to agricultural protection”.

Table 5-12. GATT Programme for the Expansion of International Trade: Primary Commodity Coverage of Committees II and III

Commodity	Imports of industrial countries, <sup>a</sup> 1962				
	Total (millions of dollars)	From primary exporting countries <sup>b</sup>		From developing countries <sup>c</sup>	
		Millions of dollars	Percentage	Millions of dollars	Percentage
Committee II items					
Butter .....	395	199	50	8	2
Cheese .....	310	68	22	2	1
Meat, fresh, frozen, chilled...	1,268	691	55	238	19
Fish .....	623	176	28	141	23
Cereals <sup>d</sup> .....	2,670	725	27	505	19
Flour .....	80	89	11	3	3
Wine .....	559	280	50	272	49
Sugar <sup>e</sup> .....	1,139	1,002	88	886	78
TOTAL, Committee II items	7,044	3,149	45	2,057	29
Committee III items					
List I (1959)					
Coffee .....	1,738	1,717	99	1,716	99
Tea .....	466	440	94	439	94
Cocoa .....	516	444	86	440	85
Tobacco .....	794	241	30	238	30
Oil-seeds, tropical <sup>f</sup> .....	251	249	99	249	99
Vegetable oils, tropical...	292	219	75	218	75
Cotton .....	1,424	871	61	871	61
Timber, in round and rough					
Sawn .....	795	399	50	392	49
Processed .....	1,446	131	9	127	9
Lead, ore .....	67	46	69	29	43
Metal, unwrought .....	141	77	55	40	29
Wrought .....	4	—	—	—	—
Copper, ore .....	128	95	75	74	58
Unwrought .....	1,473	924	63	893	61
TOTAL, List I	9,536	5,855	61	5,726	60
List II (1960)					
Iron ore .....	1,197	630	53	618	52
Bauxite .....	222	193	87	193	87
Aluminium, unwrought ...	442	22	5	22	5
TOTAL, List II	1,860	845	45	832	45
List III (1961)					
Phosphates .....	189	122	65	122	65
Ferro-manganese .....	55	10	19	3	6
Copper, wrought .....	204	1	1	1	1
Bananas <sup>g</sup> .....	376	360	96	360	96
TOTAL, List III	824	493	60	486	59
List IV (1963)					
Rice .....	118	62	53	61	52
Sugar .....	1,139	1,002	88	886	78
Salt .....	50	18	36	18	35
Onions and garlic <sup>h</sup> .....	310	54	18	53	17
Nuts, cashew .....	262	88	34	88	34
Citrus fruit .....	500	236	47	189	38

Table 5-12 (continued)

Commodity	Imports of industrial countries, <sup>a</sup> 1962				
	Total (millions of dollars)	From primary exporting countries <sup>b</sup>		From developing countries <sup>c</sup>	
		Millions of dollars	Percentage	Millions of dollars	Percentage
List IV (1963) (continued)					
Spices .....	83	67	81	67	81
Fish meal <sup>1</sup> .....	180	140	78	117	65
Oil-cake .....	479	264	55	257	54
Hides and skins .....	522	286	55	158	30
Wool .....	1,972	1,513	77	295	15
Hard fibres .....	265	171	65	170	64
Kapok <sup>j</sup> .....	29	24	84	24	84
Asbestos .....	172	48	28	16	9
TOTAL, List IV	6,081	3,975	65	2,399	40

Source: Bureau of General Economic Research and Policies of the United Nations Secretariat, based on national trade statistics.

<sup>a</sup> North America, western Europe and Japan. Imports are valued c.i.f. except for Canada and the United States for which they are f.o.b.

<sup>b</sup> Latin America, Africa, Asia (excluding Japan, Turkey and the centrally planned economies), and Oceania.

<sup>c</sup> Primary exporting countries less Oceania and South Africa.

<sup>1</sup> Trade includes imports of rice, which is an item on List IV of Committee III.

<sup>2</sup> Trade includes imports of molasses, honey and syrups. Sugar is also an item on List IV of Committee III.

<sup>3</sup> Copra and palm kernels.

<sup>4</sup> Not on the original List III but subsequently discussed in the Committee.

<sup>5</sup> Trade includes imports of fresh vegetables other than potatoes, beans and peas, legumes and tomatoes.

<sup>6</sup> Trade includes meat meal.

<sup>7</sup> Trade includes imports of vegetable fibres other than cotton, jute, flax, hemp, ramie, sisal and abaca.

quired". The outcome of a debate on this report at a ministerial meeting in November 1961 was a "Declaration on the Promotion of the Trade of the Less-Developed Countries", subsequently adopted at the nineteenth session of the Contracting Parties.<sup>25</sup> This Declaration was intended as a basis for the future work of the Committee and as guiding principles for the members of the GATT in reducing the obstacles to the exports of the less developed countries in the shortest possible time. In addition to the elimination, or progressive removal, of quantitative import restrictions, tariffs, revenue duties and fiscal charges, the Declaration urged changes in state trading practices and the removal of trade preferences which discriminate against less developed countries. It also called for changes in the commercial and other policies of industrialized countries which subsidize primary production and thus limit the market opportunities for imports from less developed countries and which also lead to exports under commodity surplus disposal sales or grants and thus reduce markets for the exports from the less developed countries. Some of the Declaration's recommendations were addressed to the under-developed ex-

porters and some concerned general stabilization and compensation questions, but its main emphasis was on the removal of barriers to trade which could be expected to provide an immediate improvement in the situation.

In line with the Declaration, the subsequent efforts of Committee III were directed to preparing the draft of a programme of action as specific as possible in terms of timing, commodity coverage and implementation procedures. Since tariffs on tropical products were deemed to be most amenable to rapid change, a Special Group on Trade in Tropical Products was established within the framework of Committee III to come forward with appropriate proposals. In April 1963, after a series of meetings and consultations, Committee III and the Special Group presented reports on which a specific programme of action might be based.<sup>26</sup> In the meantime, at the twentieth session of the Contracting Parties, a resolution—sponsored by twenty-one developing countries<sup>27</sup>—had called for a series of liberalizing meas-

<sup>25</sup> See General Agreement on Tariffs and Trade, *Basic Instruments and Selected Documents*, tenth supplement, March 1962, pages 28 to 32.

<sup>26</sup> See General Agreement on Tariffs and Trade, *Basic Instruments and Selected Documents*, eleventh supplement, 1963, page 188.

<sup>27</sup> Argentina, Burma, Brazil, Cambodia, Ceylon, Chile, Cuba, the Federation of Malaya, Ghana, Haiti, India, Indonesia, Israel, Nigeria, Pakistan, Peru, Tanganyika, Tunisia, United Arab Republic, Uruguay and Yugoslavia.

ures in respect of the commodities on lists I-III. This resolution embodied a seven-point programme of a very specific nature, to which an eighth, more general, point was subsequently added:

- i. Standstill on new tariff and non-tariff barriers,
- ii. Elimination of quantitative restrictions within one year, or in the event of difficulties, by 31 December 1965,
- iii. Duty-free entry of tropical products by 31 December 1963,
- iv. Elimination of tariffs on primary products,
- v. Reduction and elimination of tariff barriers on semi-processed and processed products from the less developed countries on a scheduled basis providing for a reduction of at least 50 per cent of the present duties over the next three years,
- vi. Reduction of internal fiscal charges and revenue duties on products wholly or mainly produced in less developed countries, with a view to their elimination by 31 December 1963,
- vii. Reporting procedures to help ensure implementation of the action programme,
- viii. Other measures for facilitating diversification and expansion of the export capacity and foreign exchange earnings of the economies of the less developed countries.<sup>28</sup>

The eight-point "Programme of Action" resolution was discussed at the GATT ministerial meetings in May 1963. While no Government took exception to its general objectives, many reservations were expressed with respect to its scope and speed of implementation, and there was a tendency to shift emphasis from the initial liberalization clauses to the

"other measures" implicit in point viii. A number of Governments, indeed, maintained that the reduction or removal of existing barriers to trade would not significantly improve the export possibilities of the less developed countries, urging that other, more "positive" measures would provide a more helpful approach to the problem.<sup>29</sup> No formal vote was taken on the specific points of the programme. It was decided unanimously, however, that an action committee be established to clarify and elaborate the programme in more consistent and concrete terms. This Action Committee began its work in September 1963.<sup>30</sup> Apart from the focus provided by the "Programme of Action" itself—especially point viii, under which development plans and their financing and such matters as marketing techniques and trade information services are being studied—the work of other GATT bodies is being taken into account. Chief among the latter are the Working Party on Preferences and the Committee on the Legal and Institutional Framework of GATT in Relation to the Less Developed Countries, both set up by ministerial resolution in May 1963 and both concerned with the same basic problem of improving the export earnings of the developing countries.

#### THE REDUCTION OF TARIFFS: A BRIEF APPRAISAL

To judge by data for 1962, the major industrial countries collect between \$0.8 and \$0.9 billion a year from customs duties on primary commodities imported from developing countries.<sup>31</sup> About two-thirds of these collections—which exclude the proceeds of duties on petroleum in the Federal Republic of Germany and tobacco and petroleum in the United Kingdom—are derived from imports of three groups of commodities—sugar, beverages and petroleum.

<sup>28</sup> This last point was not listed in the original document which presented the programme as a resolution for discussion and approval. Its substance, however, appeared in the text of the document and in the report of the meetings of October-November 1962, where it was mentioned as a matter for further study. (See General Agreement on Tariffs and Trade, *Basic Instruments and Selected Documents*, eleventh supplement, 1963, page 204.) In addressing a meeting of Committee III on 1 April 1963, a representative of the International Bank for Reconstruction and Development observed: "the seven targets (of the action programme) alone will not lead us to a definite solution.... Would it not seem far better that the growth of trade be accompanied and even generated by the balanced growth of the entire economy, the balanced increase in the productive capacity and the diversification of the agricultural and industrial production of the developing world?... It would be worth being inserted as an 'eighth target' for action in the programme". Later, in urging the addition of this point, it was suggested by representatives of sponsoring countries that among the measures contemplated were commodity agreements to improve the terms of trade and stabilize primary commodity prices, preferential arrangements to improve market access for processed products, and new institutional and legal arrangements to strengthen the position of the less developed countries.

<sup>29</sup> See General Agreement on Tariffs and Trade, *Summary Review of the Meeting of Ministers*, 16-21 May 1963.

<sup>30</sup> See United Nations, "The Role of GATT in Relation to Trade and Development" (mimeographed document E/CONF.46/38), page 20.

<sup>31</sup> This estimate is derived by applying to the 1962 level of imports from the developing countries of each commodity to each of the major industrial countries the rate of duty that seemed most appropriate (bearing in mind differences between customs nomenclature and the SITC), allowing for preferences and tariff-free entry wherever relevant. It does not include duties on tobacco and petroleum imports into the United Kingdom, amounting to about \$2.7 billion: in order to achieve a higher degree of comparability among countries, these were grouped with excise taxes. Nor does it include duties collected on petroleum imports into the Federal Republic of Germany; the duty on crude petroleum has since been replaced by fiscal taxes on petroleum products but in 1962 it realized about \$660 million. Nor does the estimate of collections include the profits that state monopolies may derive by buying on the world market and selling on the insulated domestic market (which in countries where importing is in private hands may be captured by the State through a duty). The computed total should therefore be regarded as no more than a rough approximation, indicative of the current order of magnitude of the yield of customs duties narrowly defined.



The rest comes from a wide assortment of duties on other primary products (*see* table 5-13). Calculated as a proportion of all primary commodity imports, these collections represent an average tax of rather less than 5 per cent. The rate is lowest (around one per cent) for various types of raw materials and highest for basic food-stuffs (almost 18 per cent). Calculated as a proportion of the primary commodity imports subject to duty (about \$6.3 billion), the average rate is about 13 per cent. If tobacco and petroleum are excluded—because of the difficulty of distinguishing between the customs duties and the excise taxes to which they are liable—tariff collections amount to about \$642 million; on the basis of dutiable imports valued at about \$3.8 billion, this represents an average tax rate of almost 17 per cent.

As indicated in the previous section of this chapter, some of these duties perform a protective purpose, others are imposed as revenue-raising taxes. While in principle this distinction is clear and economically important, in practice it is often difficult if not impossible to separate the two functions, partly because of the inter-substitutability of many commodities and partly because particular items are often subject to more than one type of impediment, the protective and revenue functions being shared between them in indeterminable proportions.

As suggested above, it is also difficult in some cases to distinguish between revenue-raising duties imposed at the frontier and those imposed somewhat later along the line of flow from mine or farm to ultimate user. A revenue duty and an excise have more or less the same objective and where an imported commodity is largely involved the effects are very similar; hence it is logical—and sometimes convenient—to treat the two types of tax impediment simultaneously. The peculiar demand conditions which invite such commodity taxes have made it possible to raise some of the excise rates involved to extremely high levels. As a result, the industrial countries tend to raise far more revenue from fiscal charges on primary commodities than from customs duties.

For the purposes of this chapter—which are essentially illustrative—some decisions of less than universal validity have been made with regard to the nature of particular impediments and hence of the possible consequences of their reduction. It has been assumed, for example, that where there is some form of quantitative control over imports, this is essentially the instrument for the protection of domestic producers of the commodity in question; any tariff imposed on such an item has been classified as a revenue-raising tax. A reduction in such a tariff is assumed to have no effect on internal prices or on the volume of imports—these being separately con-

trolled—but to be reflected fully in the unit value of exports. It has also been assumed that where there is no significant domestic production of a particular commodity, any duty imposed on imports is of a revenue nature; no attempt has been made to assess the effect of such a duty on domestic production of substitute items for which it may constitute a significant form of protection. Where the effect of reducing the duty has been estimated, it has been done narrowly, only in respect of the specific item, its possible impact on competitive domestic production or on complementary imports being ignored.

More generally, this first approach is atomistic: each item and each impediment is viewed in isolation, no account being taken of the intricate inter-relationships among commodities in respect either of production or of consumption. Inasmuch as even primary commodity production has an import input, every postulated change in domestic output may be expected to have repercussions on import demand. A cut-back in the output of livestock products, for example, has implications for the demand for imported feed grains and oil-cake. Similarly on the consumption side, the cheapening of one commodity by means of a tariff cut is likely to affect in some degree the demand for all competing items, whether domestically produced or imported.

Even within this artificially simplified framework, the process of appraising the possible effects of a given reduction in duty rests at each stage on estimates of the key variables which link the various elements in the production-trade-consumption chain. Assumptions have to be made about the internal price pyramid in the importing country, that is, the extent to which a reduction in duty is likely to be reflected in a cut in the operative price on the basis of which the decisions of manufacturers (in the case of raw materials) or of consumers (in the case of most food-stuffs) will determine demand. Assumptions have to be made about the responsiveness of this demand by users to the postulated change in price. Assumptions have likewise to be made about the elasticity of supply; and this involves not only the response of domestic producers to the lower price for the imported product but also the capacity of producers elsewhere to meet any consequent increase in demand. The extent to which a reduction in protection will induce the withdrawal of extra-marginal, high-cost producers in the importing country depends not only on the cost structure of the farms and mines involved but also on their ability to improve their efficiency in the face of changes in other costs that might be brought about by the liberalization of trade policies affecting other commodities. Assumptions about this have also to be made.

Table 5-13. Estimated Collections of Customs Duties by Major Industrial Countries on Primary Commodities Exported from Developing Countries,<sup>a</sup> 1962

(Millions of dollars)

Commodity group	United States	United Kingdom	Japan	Belgium-Luxembourg	Federal Republic of Germany	France	Italy	Netherlands	Total for countries indicated		
									Collections	Imports from developing countries	Average rate of duties (percentage)
Basic primary foods.....	75.0	18.2	180.7	1.9	7.6	5.8	5.6	3.0	297.8	1,697	17.7
Fruit and vegetables.....	18.1	9.4	4.9	2.1	9.2	33.1	4.4	3.9	85.1	795	10.7
Beverages, <sup>b</sup> spices, tobacco	5.5	0.1 <sup>c</sup>	22.8	3.7	96.7	55.5	14.4	4.5	203.2	2,865	7.1
Oil-seeds and feeds.....	0.8	4.6	0.1	0.3	1.6	3.4	0.5	0.6	11.9	884	1.3
Fibres, hides, rubber.....	13.8	0.2	0.1	—	0.1	—	3.5	0.1	17.8	2,222	0.8
Other agricultural raw materials .....	0.8	4.9	1.1	0.5	2.6	1.1	2.0	0.2	13.2	645	2.1
Organic oils .....	4.3	2.1	0.4	0.2	4.6	9.6	4.4	0.4	26.0	313	8.4
Crude minerals .....	0.8	0.1	—	—	—	0.2	0.1	0.4	1.6	276	0.6
Metals .....	25.6	0.2	2.5	—	0.1	2.8	0.8	0.1	32.1	2,468	1.3
Fuels .....	46.1	<sup>c</sup>	75.7	0.8	<sup>c</sup>	1.3	2.7	2.1	128.7	6,066	2.1
TOTAL, above commodities	190.3	39.8	288.3	9.5	122.5	112.8	38.4	15.3	817.4	18,231	4.5

Source: Bureau of General Economic Research and Policies of the United Nations Secretariat, appendix tables 5B-3 and 5B-6.

<sup>a</sup> These estimates have been made by multiplying the recorded volume or value of imports in 1962 by the rate of duty judged to be applicable to the trade flow in question. Excise and fiscal charges have been excluded as far as possible; however, as taxes are not always levied

at the same point, the extent to which the figures reflect total indirect or commodity taxation differs somewhat from case to case.

<sup>b</sup> Cocoa, coffee, tea and wine.

<sup>c</sup> It was assumed that duties levied by the Federal Republic of Germany on petroleum and by the United Kingdom on tobacco and petroleum represent excise taxes. The amounts collected are included in table 5-15 as fiscal charges.

Nor is it possible to escape the necessity of making such assumptions—even if only implicit—by the process of aggregation. In the case of the primary commodities the disparities are too great, not only in the conditions of production and in the pattern of end-use, but also in official policies and actions. Even if a liberalization programme is worked out on a concerted basis, it is likely to consist, in each participating country, of a series of individual commodity measures.

In the light of these considerations, it is clear that an over-all assessment of possible liberalizing measures is likely to be more useful in indicating the general nature of the probable consequences than in quantifying them with any pretense of providing a measure of potential trade expansion. In this respect the most that can be hoped for is some indication of where the trade response seems to hold out the greatest promise.

#### *Revenue duties and fiscal charges*

Primary commodities taxes that have no protective purpose tend to fall into two categories—those that are active fiscal instruments and those that are revenue collectors of little or no fiscal significance. The former tend to be levied on commodities for which

the demand is extremely inelastic—strongly influenced by established expenditure patterns and not challenged by substitutes. The latter sometimes represent a hold-over from an earlier tariff whose protective purpose has been outmoded by technological or economic change, or an administrative device for keeping imports under closer review than they would be if admitted duty-free. More often, however, they arise from a closing of the gap between internal and external prices; the tariff is a by-product of a domestic support system rather than a tax specifically designed to raise revenue.

Where the duty is used as a fiscally significant form of indirect taxation, demand conditions are likely to be such that the incidence of the duty falls largely if not entirely on the consumer. Using as the vehicle for the tax a few of the primary commodities originating in the developing countries, the major industrial countries raise from domestic consumers over \$6 billion a year, the great bulk of it through petroleum and tobacco. Not only is the suggestion of a reduction in such taxes likely to meet with strenuous opposition from the fiscal authorities in the importing country but—even more pertinent in the present context—it is unlikely, because of its very nature, to result in any marked increase in con-

sumption and imports. Hence, the fiscal losses to the importing country may be very much greater than any possible gain to the exporting country from the resultant increase in price or volume.<sup>32</sup>

This is not, however, a conclusive argument against a reduction of this nature for any commodity or in any country. In the first place a fiscal "loss" is an internal matter and it can be made good by modifications in the tax structure, whereas a gain in export earnings yields a net increment to the resources available to the exporting country. And, quite apart from this difference in nature, the significance of the magnitudes also needs careful interpretation; a small gain may be more important to a low-income country than a much larger loss to a high-income country.

The extent to which a reduction in fiscal tax is likely to result in an increase in consumption, and hence in trade, depends largely on the reaction of consumers to a lowering in price. Though, in general, demand for the commodities in question is unlikely to be very responsive, elasticity may not be uniformly low in all cases and for all income levels. To some extent the scope for expanding trade through cutting taxes of this nature in some industrial countries may be judged by reference to disparities among them in price and in per capita consumption. In general, the greater the deviation in domestic price (upward) and in per capita consumption (downward) from the average obtaining in the industrial countries, the stronger the presumption that a reduction in customs or fiscal duties would be in the interest of trade expansion. On this basis it is probable that a cut in duties in such high-rate, high-price, low-consumption cases as coffee and cocoa in Italy, tea in the Federal Republic of Germany and France, sugar in Italy and Japan and tobacco in the Federal Republic of Germany would result in a greater increase in imports than a corresponding cut—in terms of loss of revenue—in cases in which per capita consumption is higher and price and tax lower (*see* table 5-14).

Where the revenue tariff is low, the fiscal loss in its reduction is not likely to be a serious deterrent to liberalization. By the same token, however, the

impact of such a reduction on commodity prices and trade would also be of a minor order. Where the tariff is high but the yield low—a situation met more frequently among the protective duties—a reduction in rates might have a more positive effect. The field of greatest potential significance among the revenue tariffs, however, may well be the one comprising those instances in which the tax is intended to raise the c.i.f. price to somewhere near the insulated domestic price. Removal of such duties would allow the import—while still controlled as to quantity—to realize the higher price at which domestic output is sold. Depending upon the organization of the trade and the method used to control imports, the exporter might be able to capture some—and in certain circumstances most—of the revenue relinquished by the importing Government.

While, the number of variables and imponderables being so great and so interdependent, it is virtually impossible to predict the precise consequences of any given reduction in tariff or other measure of liberalization, some of the relevant factors are brought together in table 5-15 and appendix table 5B-8. Table 5B-8 shows the locus and nature of the impediment and the extent to which it is the developing countries rather than other sources of supply that are affected by it. Table 5-15 breaks down primary commodity imports subject to tariff restraint according to the criteria suggested above.

The first conclusion that emerges from this analysis is that duties levied on commodities that are also subject to quantitative control account for a large proportion of the tariff collections of the major industrial countries other than tobacco and petroleum collections in the United Kingdom: excluding the profits of state monopolies on controlled imports, such duties yielded over half of total customs revenue in 1962.<sup>33</sup> As indicated above, the extent to which duty-free admission of these items up to the quotas prescribed in the countries involved would increase the export earnings of the developing countries depends on how the quantitative control is operated. At the one extreme, if the import quotas were given to local traders, the revenues relinquished by the Government would tend to accrue largely if not en-

<sup>32</sup> The disparity between trade gain and fiscal loss has been emphasized from time to time in GATT Committee III discussions of the fiscal charges that are levied in several countries on coffee. Depending on the assumptions made about the steepness of the price pyramid and the response of consumers to a decline in retail prices, the probable expansion in imports that might be expected to follow the abolition of the charges has been estimated at around \$60 million or about one-fifth of the loss in the revenue that would be incurred in the liberalizing countries. In the case of commodities such as tobacco and motor spirit, demand for which tends to have a much lower price elasticity in most industrial countries, the ratio of export gain to fiscal loss is likely to be even smaller.

<sup>33</sup> Both total collections and the proportion accounted for by taxes on imports subject to quantitative control would be appreciably higher if the profits on imports by state monopolies were included—as, in view of their essentially similar function and effects, they might properly be. Such monopolies constitutes a common means of operating quantitative controls—for cereals (in the Federal Republic of Germany, France, Italy, and Japan), meat (in the Federal Republic of Germany and Japan), sugar (in the Federal Republic of Germany), tobacco (in France, Italy and Japan) and bananas (in Italy), for example—and they often acquire the imported commodity at or near world market price and subsequently sell it at the higher domestic price.

Table 5-14. Consumption, Prices and Taxes: Selected Commodities in the Major Industrial Countries<sup>a</sup>

Commodity and item	United States	United Kingdom	Japan	Belgium-Luxembourg	France	Federal Republic of Germany	Italy	Netherlands	Average
<b>Coffee</b>									
Per capita consumption (kilogramme) .....	7.24	0.95	0.09	5.77	4.31	3.43	1.80	4.31	3.49
Retail price <sup>b</sup> (cents per kilogramme) .....	161	222	330	223	205	459	376	167	268
Customs and fiscal duties (percentage) .....	0	4	45	5	60	127	174	5	53
<b>Cocoa</b>									
Per capita consumption <sup>c</sup> (kilogramme) .....	1.54	1.76	0.11	1.95	1.10	1.85	0.35	1.92	1.32
Retail price <sup>d</sup> (cents per kilogramme) .....	113	139	...	193	183	225	222	167	177
Customs and fiscal duties (percentage) .....	0	1	5	3	9	6	77	3	13
<b>Tea</b>									
Per capita consumption (kilogramme) .....	0.28	4.43	0.76	0.04	0.04	0.13	0.03	0.79	0.81
Retail price (cents per kilogramme) .....	378	201	362	558	625	766	485	244	452
Customs and fiscal duties (percentage) .....	0	4	35	7	126	53	42	7	34
<b>Sugar</b>									
Per capita consumption (kilogramme) .....	47.7	54.4	14.4	33.7	39.1	32.1	20.7	53.3	36.9
Retail price (cents per kilogramme) .....	25	20	40	27	25	31	34	27	29
Customs and fiscal duties (percentage) .....	26	88	263	103	37	70	228	103	115
<b>Tobacco</b>									
Per capita consumption (kilogramme) .....	3.92	2.86	1.41	3.23	1.66	1.81	1.27	3.33	2.44
Retail price (cents per 20 cigarettes) .....	27	60	22	30	30	50	40	27	39
Customs and fiscal duties (percentage) .....	214	1,200	395	...	511	592	200	429	506

Source: Bureau of General Economic Research and Policies of the United Nations Secretariat, based on United Nations, *Statistical Papers, Series M, No. 14/Add.3*; Food and Agriculture Organization of the United Nations, *Trade Yearbook, The World Coffee Economy, Trends and Forces of World Sugar Consumption and Document CCP/Cocoa/62/4*; International Sugar Council, *Statistical Bulletin*; International Labour Organisation, *International Labour Review* (Geneva); Statistisches Bundesamt, *Eiselandelspreise und Indices der Verbrauchpreise* (Weisbaden);

Bureau of Statistics, *Monthly Report on the Retail Price Survey* (Tokyo).

<sup>a</sup> Per capita consumption: average 1958-1960 for coffee, cocoa, tea and sugar and average 1958-1961 for tobacco; retail prices: average in 1962. Customs and fiscal duties in percentage *ad valorem* of import unit values in 1962.

<sup>b</sup> Pure, roasted.

<sup>c</sup> Including beans and cocoa products (butter, paste and powder) in bean equivalent.

<sup>d</sup> Unsweetened.

tirely to the importers who would be able to buy on the world market and sell on the higher-priced domestic market. At the other extreme, if the quotas were allotted to particular exporters—as is the case with much of the sugar imports into the United States, for example—they would be able to sell the specified quantities on the protected market at the

higher price. On the basis of the 1962 figures, the most favourable outcome of liberalization for the developing countries would be an increase in their export earnings by about \$450 million—the result of their being permitted to sell the quantities actually exported in 1962 at the domestic prices obtaining in the importing countries.

Table 5-15. Primary Commodity Imports into Major Industrial Countries from Developing Countries: Distribution by Tariff Impediment, 1962

(Millions of dollars)

Commodity <sup>a</sup>	Imports subject to							
	Quantitative control and duty		Other revenue duties		Protective duties		Fiscal charges	
	Actual imports <sup>b</sup>	Duty collections <sup>c</sup>	Actual imports <sup>b</sup>	Duty collections	Actual imports <sup>b</sup>	Duty collections	Actual imports	Duty collections <sup>d</sup>
Copra .....	16	1.1	—	—	—	—	51	36.1
Coffee <sup>b</sup> .....	153	23.6	371	75.1	—	—	431	359.5
Palm kernels .....	—	—	11	0.7	—	—	4	0.2
Abaca .....	—	—	—	—	—	—	—	—
Jute .....	—	—	11	0.3	—	—	—	—
Bananas <sup>b</sup> .....	21	5.4	26	6.0	—	—	—	—
Castor oil-seed .....	—	—	—	—	7	0.4	1	—
Tea .....	2	0.8	20	8.6	—	—	15	9.6
Ground-nut oil .....	6	0.7	—	—	44	5.5	1	0.1
Petroleum, crude .....	851	25.5	579	63.6	e	e	4,809	3,594.8
Ground-nuts .....	1	0.1	—	—	—	—	13	0.8
Bauxite .....	—	—	—	—	122	6.1	—	—
Pepper and pimiento .....	4	1.0	3	1.2	6	1.3	—	—
Cocoa .....	13	0.7	159	8.7	—	—	111	16.4
Molasses .....	17	5.2	—	—	43	16.5	58	16.0
Palm oil .....	17	0.7	9	0.5	—	—	11	1.6
Sugar .....	570	218.4	—	—	98	10.4	668	187.9
Gums and resins, natural .....	—	—	12	0.8	—	—	—	—
Castor oil .....	6	0.3	—	—	11	1.3	—	—
Coconut oil .....	3	0.2	—	—	4	0.4	25	13.4
Linseed oil .....	27	2.5	—	—	10	1.3	—	—
Tin, unwrought .....	—	—	—	—	28	1.4	—	—
Spices, other .....	3	0.6	6	1.7	12	—	—	—
Manganese ore .....	—	—	—	—	62	4.9	—	—
Fish meal .....	35	1.1	—	—	54	2.7	—	—
Cotton .....	26	2.1	—	—	71	2.8	—	—
Copper, unwrought .....	—	—	—	—	182	9.1	—	—
Plants, pharmaceutical .....	—	—	5	0.1	—	—	—	—
Copper ore .....	—	—	—	—	6	0.4	—	—
Quartz, mica .....	—	—	—	—	20	0.2	—	—
Honey .....	—	—	—	—	12	3.9	—	—
Plaiting material .....	—	—	5	—	—	—	—	—
Brans and pollard .....	—	—	—	—	36	2.2	—	—
Palm kernel oil .....	3	0.2	—	—	6	0.3	4	1.2
Oil-seed cake .....	—	—	—	—	25	3.1	—	—
Rice .....	36	3.8	—	—	—	—	—	—
Wood, rough .....	—	—	—	—	137	5.0	—	—
Wine <sup>b</sup> .....	101	32.8	1	0.1	1	0.2	270	46.4
Petroleum products <sup>f</sup> .....	772	33.8	—	—	80	6.4	1,234	638.3
Zinc ore .....	24	2.6	—	—	—	—	—	—
Lead ore .....	7	0.6	—	—	1	—	—	—
Lumber, non-coniferous <sup>b</sup> .....	—	—	4	0.7	40	1.3	—	—
Oranges and tangerines .....	1	0.3	112	20.5	—	—	—	—
Beans, peas, fresh .....	15	2.4	—	—	22	2.8	—	—
Salt .....	—	—	—	—	3	0.3	—	—
Olive oil .....	12	2.4	—	—	22	3.2	12	—
Edible nuts .....	53	7.7	—	—	20	1.3	—	—
Tobacco <sup>f</sup> .....	61	39.4	18	2.8	26	4.6	209	1,484.7
Tomatoes, fresh .....	31	7.0	—	—	17	4.5	—	—
Lead, unwrought .....	18	0.7	—	—	18	1.1	—	—
Organic oils, fats, waxes, processed .....	2	0.2	—	—	14	3.3	—	—
Other cereals .....	—	—	—	—	13	1.1	—	—
Potatoes, fresh .....	20	5.2	—	—	17	1.6	—	—
Citrus fruit, other .....	9	0.5	6	0.7	—	—	—	—
Fish .....	18	3.4	—	—	32	7.3	—	—

Table 5-15 (continued)

Commodity <sup>a</sup>	Imports subject to							
	Quantitative control and duty		Other revenue duties		Protective duties		Fiscal charges	
	Actual imports <sup>b</sup>	Duty collections <sup>c</sup>	Actual imports <sup>b</sup>	Duty collections	Actual imports <sup>b</sup>	Duty collections	Actual imports	Duty collections <sup>d</sup>
Maize <sup>b</sup> .....	4	0.1	8	0.5	23	2.2	—	—
Oils, marine .....	5	0.3	—	—	7	0.5	—	—
Meat, fresh, chilled, frozen..	48	8.8	9	1.2	147	7.4	—	—
Cork .....	—	—	2	0.1	—	—	—	—
Fresh vegetables, other.....	26	3.7	—	—	20	4.5	—	—
Barley .....	2	0.1	—	—	—	—	—	—
Wool, greasy and degreased	—	—	6	0.1	66	10.5	—	—
Zinc, unwrought .....	7	0.5	—	—	6	0.3	—	—
Silver and platinum.....	—	—	—	—	1	—	—	—
Wheat .....	29	1.8	—	—	—	—	—	—
Dried fruit .....	3	0.2	2	0.2	12	1.4	—	—
Apples, fresh .....	17	2.3	—	—	—	—	—	—
Live animals .....	62	3.5	—	—	—	—	—	—
Wool, processed .....	—	—	—	—	17	1.5	—	—
Sunflower seed oil.....	1	—	—	—	1	—	—	—
Gas .....	—	—	—	—	4	0.2	—	—
Wheat flour .....	—	—	—	—	2	0.2	—	—
Refractory minerals .....	—	—	—	—	4	0.1	—	—
Silk .....	—	—	3	0.2	—	0.1	—	—
Cotton-seed oil .....	1	—	—	—	—	—	—	—
Railway sleepers, wooden....	—	—	—	—	1	0.1	—	—
Eggs .....	3	0.3	—	—	9	0.4	—	—
Abrasives, natural .....	—	—	—	—	2	0.1	—	—
Seeds for planting.....	1	—	—	—	4	0.1	—	—
Grapes, fresh .....	—	—	—	—	2	0.2	—	—
Stone .....	—	—	—	—	3	0.2	—	—
Hay and fodder.....	—	—	—	—	1	—	—	—
Aluminium, unwrought .....	—	—	—	—	22	2.1	—	—
Lumber, coniferous .....	—	—	13	1.3	23	0.8	—	—
Butter .....	8	0.3	—	—	—	—	—	—
Meat, dried, smoked .....	3	0.3	—	—	—	—	—	—
Bulb and live plants.....	1	—	—	—	—	—	—	—
Cheese .....	2	0.2	—	—	—	—	—	—
Copper, wrought .....	—	—	—	—	1	—	—	—
TOTAL of above .....	3,177	455.4	1,401	196.7	1,700	151.1	7,927	6,407.0
TOTAL, excluding petroleum and tobacco .....	1,493	356.7	804	129.3	1,594	140.1	1,675	689.2

Source: Bureau of General Economic Research and Policies of the United Nations Secretariat, based on table 5-8 and appendix tables 5B-3, 5B-6, 5B-7 and 5B-8.

<sup>a</sup> Commodities subject to duty or fiscal charge, listed in descending order of the relative contribution of developing countries to the imports of all industrial countries in 1962. Residual categories, such as "Other cereals", "Citrus fruit, other" and "Fresh vegetables, other" are defined in "Commodity notes" to appendix table 5B-3.

<sup>b</sup> The imports classified under these heads do not always add up precisely to the figure cited in table 5-10. The difference reflects, in part, the result of the rounding procedures, and in particular the omission from table 5-15 of items on which duty collections totalled less than \$50,000 in 1962 as well as a number of miscellaneous residual categories. It also reflects the exclusion from the relevant columns of table 5-10 of (generally minor) component imports of some dutiable commodity categories when the components were admitted duty-free and the inclusion of the dutiable component of other commodity categories when the "effective" tariff rate of the latter—indicated in table 5B-6—was denominated as zero. In the case of coffee,

bananas, wine, maize and non-coniferous lumber, which have a sizable duty-free component in some countries, imports in table 5-15 have been adjusted by removal of the component in question. Where the discrepancies are small, however, total imports have been included without adjustment.

<sup>c</sup> Excluding the implicit collections made by state monopolies when they sell imports bought at the world market price to domestic users at the higher internal price.

<sup>d</sup> Including amounts imputed to crude tobacco and petroleum imports from taxes levied on their immediate products.

<sup>e</sup> Imports of crude petroleum into the Federal Republic of Germany, totalling \$569 million in 1962 were subject to a tax equivalent, after allowance for drawbacks, to about 116 per cent and hence yielding about \$660 million. As this duty has since been replaced by excise duties on petroleum products and the protection it afforded to domestic producers replaced by a system of subsidies, it has been considered more realistic to omit it from the calculation.

<sup>f</sup> Imports of petroleum into the Federal Republic of Germany and of tobacco and petroleum products into the United Kingdom have been classified subject to fiscal charges, not to revenue or protective duties.

The implications of this, however, need to be interpreted carefully in the light of the assumption on which it is based and the commodities affected. The bulk of the amount collected was derived from duties on commodities—sugar (48 per cent), petroleum (13 per cent), tobacco (9 per cent)—which, as pointed out above, are fiscal favourites and on which other types of taxes were levied in some of the importing countries involved. This fact would tend to limit both the distribution of the benefit among the developing countries and, possibly, the willingness of the importing countries to forgo the revenue. Moreover, over one-third of the amount came from commodities of which the developing countries as a group constitute a minority supplier, and if liberalization took a form that would allow foreign suppliers to receive the same price as domestic suppliers, the question arises whether importing countries would not be better disposed to such a measure if it were confined to the developing countries. However, a preference system that granted duty-free entry only to the developing countries would in some cases cut across existing preferences; for some of the quantitative controls now affecting trade in the items concerned are specifically designed to provide duty-free quotas to favoured suppliers.

A more general and more fundamental question also needs to be asked. Duty-free quotas, to achieve an increase in earnings in the manner indicated above, imply a continuation of both quantitative control over imports and high domestic price levels. While the right to share in the high price market may be very advantageous for the exporting countries in the short run—and certainly a notable improvement over a situation in which the Government of the importing country captures the difference between domestic and world market prices—the longer-run gain is by no means as certain. For it is largely through the maintenance of a high domestic price that net importing countries tend to move towards greater self-sufficiency. The advantage of the higher price that would come from duty-free entry might be gradually whittled away by declining volumes.<sup>34</sup>

Primary commodity imports into the major industrial countries that are subject to revenue duties but not to quantitative control totalled about \$1.4 billion in 1962, and the average rate of duty was about 14 per cent. These being commodities of which there is little or no output in the importing country, the effect of a reduction in duty will depend first on the extent to which the internal price-to-user is

affected and then on the reaction of the user to the (presumably) lower price.

On neither score does much information exist. The extent to which a tax cut is passed on to the consumer depends in large measure on the organization of the trade: the shorter the distribution chain and the more competitive its links, the larger the proportion of the cut likely to be reflected in price-to-user. In some cases the price reduction may allow the commodity concerned to attract users from other commodities, but—aside from the possibility that some of the latter may be imported—the price elasticity of demand for most primary commodities is generally less than unity in the high-income countries. The chances are, therefore, that the increase in demand will be appreciably less than the reduction in duty. A halving by the major industrial countries of all such duties on imports from the developing countries other than tobacco and petroleum, which would reduce revenue by about \$100 million, would probably not result in a comparable increase in trade. Indeed, in the light of the generally low elasticities of demand for the commodities that would be affected—over 80 per cent of the collections came from coffee, petroleum and citrus fruit in 1962—the expansion in imports that might be expected to follow might well be less than half of this amount.

#### *Protective tariffs*

The consequences of a reduction of protective tariffs are likely to be much greater than those that might be expected from a cut in revenue tariffs. This is partly because the general level of protective duties is significantly higher (except in the few cases of “active” fiscal taxes) and partly because any reduction in the price of the import would tend not only to increase the total consumption of the commodity in question but also to result in the capture by the import of a portion of the market previously served by the domestic product.

The area of ignorance here is even larger than in the previous section. For to the lack of information regarding the price pyramid and the elasticity of demand must be added a further large lacuna—in respect to the cost structure of the domestic industry and the related elasticity of substitution between the import and the local product. Where a “way of life” is involved (as in some types of farming) or a relatively large fixed investment (as in some types of mining), the drop in internal price that might be expected to result from a lowering of the duty on imports might not induce a cut-back in production. Extra-marginal producers might prefer to accept a lower income rather than move out of the industry—at least for some time. To the extent that local production was maintained—or even increased, if

<sup>34</sup> This problem is taken up later in the present chapter, in the discussion of quantitative and other non-tariff barriers in a liberalization programme. See pages 95 to 98.

farmers, for example, sought to avoid a reduction in income by growing and selling more—the expansion in imports would be held back, at least for some time.

In any given situation, the relationship between imports and local production would also depend on official attitudes and policies. If liberalization were undertaken not merely as a series of tariff cutting measures, but as part of a more broadly conceived programme for improving resource allocation, it would be reasonable to expect supplementary government actions to facilitate the transfer of extra-marginal factors, particularly labour, out of the areas whose tariff protection was being reduced. Given such a policy, the share of imports in the domestic market would rise more rapidly and to a greater extent than if the factors producing the commodity experienced difficulty in obtaining alternative employment.

In 1962 about \$2.4 billion of the imports of primary commodities moved from the developing countries to the major industrial countries over a protective tariff. (This figure includes imports of crude petroleum into the Federal Republic of Germany, no longer subject to a protective duty; excluding these the total comes to about \$1.8 billion and excluding other tobacco and petroleum imports subject to protective duties, to about \$1.6 billion.) The average level of this tariff was of the order of 9 per cent if calculated on the basis of actual trade (again excluding petroleum and tobacco), higher than that if allowance is made for the under-weighting that such a calculation involves—the high duties inevitably deterring trade to a greater extent than the low duties.

Much of the trade that is subject to protective duties relates to the more processed forms of the primary commodity—the simple products of grains, oil-seeds, mineral ores and so on—and behind these duties are sheltered various types of mills, distilleries, smelters and refineries in the industrial countries. A reduction in the tariff might be expected to lower somewhat the domestic price of the product in the importing country and make some inroads into the local industry. In so far as the output of local mills is curtailed because of the inability of some of them to produce profitably at the new price, the input—and hence the imports—of raw material will also be reduced. The net gain to the developing countries in these circumstances will arise from exporting the product in a more processed form rather than in its crude state. The advantage, reflected in foreign exchange earnings and measured by the “value added” in the processing, will differ from item to item. In general it is likely to be greatest in cases in which the labour component of costs is relatively

highest, for it is here that the developing countries may be expected to have the greatest comparative advantage. Contrariwise, the gains accruing from a tariff cut of this nature are likely to be least where the processing industry requires the heaviest capitalization or where it derives special advantages from being close to the consumer.

Perhaps the most promising field for expansion of trade from cuts in protective tariffs is that of simply prepared food-stuffs, many of which are highly standardized, fairly labour-intensive and lose a good deal of weight in processing. Protective tariffs are also prevalent among the vegetable oils, but the expansion in trade that might follow their reduction is likely to be moderated by the fact that oil-expressing nowadays is neither a labour-intensive nor a weight-losing industry. Indeed, the growing importance of the residual cake and the complexity of modern compound feed production have tended to make the industry increasingly market-oriented in recent years. And in so far as liberalization of trade in animal products resulted in holding back or reversing the growth in livestock and poultry populations in the industrial countries, import demand for the products of the vegetable oil-expressing industry would be adversely affected.<sup>35</sup>

Some gains in trade might also be achieved by a reduction in the tariffs which shelter the primary metal industry in a number of countries. The scope for expansion would probably be greatest in the field of standardized wrought products absorbed in large volumes by other industries. Here again, however, there are severe technical limits to rapid expansion—notably the high capital intensity of much of the metal industry, and the difficulty of separating the standardized mass-absorption end from the sectors producing the more sophisticated and specialized items which not only require the underpinning of a complex of metallurgical and engineering facilities but also are much more market-oriented.

Historically, most of the tariffs on the processed forms of the primary commodity in the industrial countries were imposed to protect the processing industry from competition from the products of other industrial countries. Even though the developing countries may be the source of many of the raw materials, they would have to expand their exports of the processed forms in the face of similar competition. Similar considerations apply to any increase in their exports of such items as fresh fruit and

<sup>35</sup> To some extent this might be compensated by an expansion in demand for these commodities in the countries whose exports of livestock products were increasing, but this would probably be only a slow and partial offset as these countries now practise a far more extensive agriculture, making more use of the range and of silage and local fodders than do the industrial countries.



vegetables, fish and meat and other primary products—protected in some industrial countries but produced at lower cost and in larger quantities in others.

While the elasticity of demand for imports from the developing countries may be quite high in cases in which they have a distinct comparative advantage, and substitutability is more or less complete—as is probably so for sugar and most of the minerals—it is likely to be quite low for many other items for which competition from other sources is greater. If, to take a hypothetical example, the average elasticity worked out at 3, a 50 per cent cut in all such protective tariffs might be expected to raise imports by rather more than \$200 million.<sup>36</sup> This would represent an increase of about 15 per cent in the earnings of the developing countries from exports of the commodities affected.

#### LIBERALIZATION OF NON-TARIFF BARRIERS

##### *The administration of quantitative controls*

In many ways quantitative import controls are the most troublesome of the barriers facing exporters of primary commodities: they act as absolute restrictions and, being administered unilaterally by the importing country, they leave exporters without any of the normal means of achieving an increase in the volume of sales. By the same token, liberalization presents similar problems, unless indeed the quantitative restraint is abandoned altogether or replaced by a tariff.

The problem is complicated in the present context by the fact that the commodities subject most frequently to quantitative controls are the temperate

products of which the developing countries are almost always minority suppliers on the world market. This is illustrated in appendix table 5B-8: the concentration of quantitative controls is much greater in the lower half than in the upper half. Among the controls indicated in the upper half, moreover, many are operated in conjunction with preference schemes which generally favour particular developing countries.

In 1962, imports of the major industrial countries from the developing countries of primary commodities that were subject to quantitative controls totalled almost \$5 billion of which petroleum accounted for almost half. Of the remainder, rather over \$1 billion consisted of basic food-stuffs, and of this sum sugar accounted for about two-thirds. If from the \$1.8 billion of imports other than petroleum and sugar, the items for which controls are administered in the interests of some preferred source among the developing countries are deducted, the rest comprises a large number of relatively small trade flows involving commodities which the industrial countries obtain chiefly from one another or also to some extent from the high income primary exporting countries or the centrally planned economies.

It is probable that in these circumstances the form of liberalization that would do most to assist the developing countries to expand their foreign exchange earnings is one that would entail a continuation of the quantitative restrictions but with enlarged quotas for imports.

Quantitative controls and other non-tariff restraints tend to be used most frequently by countries aiming towards or nearing the point of self-sufficiency in respect of the commodity in question. They furnish a more precise means of regulating total supply on the internal market than would be provided by a tariff that a determined seller could surmount by reducing his offer price. This precision is almost mandatory if the internal price is officially administered, at least if the government wants to avoid magnifying its stockholding obligations beyond the limits dictated by the fluctuations of domestic producers. But precise control over import volumes may also be required for other purposes, most notably to assure domestic producers of a given share of the domestic market (as in the case of petroleum, sugar and lead and zinc controls in the United States) or to allocate scarce foreign exchange in accordance with a planned set of priorities (as in the case of most controls in Japan) or to stabilize the market in the interest of established exporters (as in the case of butter in the United Kingdom and some of the commodities subject to regional preference arrangements in France).

<sup>36</sup> Within the framework of the GATT, a Working Party on Procedures for Tariff Reduction suggested in its meeting in March 1963 that a 50 per cent linear tariff cut was a realistic working hypothesis on which to base a new round of tariff negotiations. Subsequently, the interest of Committee III was focused on the application of such tariff reductions to the lists of products in which the less developed countries had indicated the greatest interest in terms of export expansion potential (see table 5-11). It was realized that in the case of many of the semi-processed and processed products on these lists, the exports of the less developed countries account for only a small percentage of total exports of the item in question so that the benefits from tariff cuts on these commodities would accrue in only small measure to the less developed countries, unless special preferences were extended to give the exports of these countries greater access to markets in both industrialized and less developed nations. While almost all the industrial countries had reduced or were contemplating reduction of tariffs in accordance with point v of the action programme, only a few of them indicated that they would undertake negotiations for the reduction of their tariffs at the rate and to the extent suggested or would do so on a non-reciprocal basis, having regard to their own fiscal and development needs. However, many have indicated a willingness to decrease the discriminatory nature of their tariff structure which gives preference to imports of raw materials as against imports of the products that contain these raw materials in semi-processed and processed form. (See GATT document 1989.)

Given this diversity, it is likely to prove impossible to find a liberalization formula of general applicability. Perhaps the nearest approach to such a formula would be one that prescribed targets in terms of proportions of consumption. Such targets would have to be based on current or historical ratios of imports to consumption, subject to an appropriate scale of increments. In view of the disparity in import dependence, the increment would probably have to be tapered rather sharply. Where the current ratio is low—less than 5 per cent, for example—a doubling of the proportion that imports bear to consumption might be achieved within a relatively short period—five years, perhaps. Such a pace might not be unduly disruptive of domestic production or impossible of fulfilment by exporters. It would imply that the share of domestic producers in the local market would have to be reduced from 95 per cent to 90 per cent. At worst—that is, assuming no growth in internal consumption—this would entail a cut-back more or less equivalent to the increase in the import/consumption ratio. If consumption were growing at approximately the same rate as population—at between one and 2 per cent a year—which is a more reasonable assumption, the same rate of increase in import share could be accommodated by a mere freezing of domestic production, allowing imports to meet all incremental requirements.<sup>37</sup>

At the other end of the scale the problem of achieving a rise in the import/consumption ratio is more difficult: above the 50 per cent import dependence ratio—and this is more or less the United States ratio for sugar, lead and zinc—every one per cent increase in imports means a more than proportional cut-back in domestic production. Here the target might be more reasonably set at the holding of the ratio—that is, a sharing of future growth in demand. Even this seemingly modest objective has not always been attained in the past. In the United States, for example, quotas fixed in absolute terms have in several instances remained unchanged over many years, notwithstanding expansion in consumption. And the recent proposals of the EEC Commission for the Community's future grain régime visualized no more than the maintenance of imports of wheat at about 10 million tons a year "over the next ten or twelve years".<sup>38</sup>

<sup>37</sup> Given a rising productivity, even the freezing of production would require the transfer of resources to other fields of activity. History suggests that to effect this smoothly might necessitate more positive measures than the manipulation of domestic prices and subsidies.

<sup>38</sup> Domestic acreage was to remain more or less constant, increases in productivity taking care of all increases in requirements. See European Economic Community, *European Community*, No. 67 (Washington, D.C.), November-December 1963, page 2.

At 1962 world export unit values, the value of consumption of the principal primary commodities (other than petroleum), imports of which were subject to administrative control in the major industrial countries as an adjunct to domestic market organization, was of the order of \$14 billion (*see* table 5-16). Thus every one per cent of consumption switched from domestic production to imports would mean an expansion of about \$140 million in trade. On the basis of 1962 ratios, only about \$60 million of this would come from the developing countries, unless some preferential system of allocating quotas were adopted.

#### *The problem of other non-tariff barriers*

The existence of overt quantitative restrictions on primary commodity imports is in most cases the external, commercial policy manifestation of an internal economic situation and its associated price and income policies. As indicated in the preceding section, any decision with regard to an alteration in the import/consumption ratios implicit in commercial policy involves an appropriate modification in domestic production and consumption policy. The very nomination of an import target is necessarily premised on a target or at least a policy for domestic production. It could be argued, indeed, that since the case for liberalization rests on the desirability of achieving a more efficient allocation of resources at the global level, the logical point of departure in the case of quantitative barriers is not the setting of import targets but a reassessment of the internal policies which make the quantitative barriers necessary for their implementation.

There are many aspects of these policies but perhaps the one most pertinent in the present context is the extent and method of subsidization of domestic production. Though this is usually intended as an instrument for income redistribution to raise the receipts of sub-economic farmers or miners to socially acceptable levels, it is often applied in a way which tends to stimulate production. This is particularly the case when support prices set to cover the costs on the less productive or less favourably located units are made generally applicable to all units. This tends to inflate the return to the larger and more efficient producers who, though least in need of assistance, obtain the predominant share of the subsidies—whether explicit or disguised—by virtue of the fact that they account for the great bulk of production. A more selective system of support, designed specifically for helping viable low-income producers, would both reduce the cost to public revenues and improve the scope for imports by moderating the stimulus to domestic production.

In those cases in which the full degree of public support for protected primary industries is disguised

Table 5-16. Approximate Import Content of Consumption of Selected Primary Commodities in Major Industrial Countries Practising Non-Tariff Control, 1958-1961

Commodity <sup>a</sup>	Import dependence <sup>b</sup>					Consumption in major industrial countries			Imports into countries with non-tariff restrictions (millions of dollars) <sup>c</sup>							
	United States	United Kingdom	Japan	EEC	Average	Total (millions of tons)	In countries with non-tariff restrictions		United States		United Kingdom		Japan		European Economic Community	
							Volume (millions of tons)	Value at 1962 prices (millions of dollars)	Total	From developing countries	Total	From developing countries	Total	From developing countries	Total	From developing countries
Beef and veal.....	3	30	3*	4*	6	12.0	3.6	1,945					2.5	0.2	148.9	45.2
Mutton and lamb.....	6	61	76*	3*	35	1.1	0.2	66					6.9	0.01	9.5	0.2
Fish .....	25	12	—	18	9	8.9										
Wheat .....	1*	63	64*	17*	21	58.8	51.2	3,328	8.3	—			180.9	—	396.0	109.7
Rice .....	1*	100	2*	49*	5	12.0	11.9	1,347	1.2	0.1			23.8	23.8	50.1	28.0
Barley .....	4	20	12*	19*	14	25.4	12.9	604					—	—	213.8	34.2
Maize .....	—	100	73	40*	8	97.0	9.9	507							374.2	132.0
Butter .....	—*	92*	4*	3*	22	2.1	2.1	1,572	0.4	—	329.5	7.5	0.5	—	60.1	0.3
Cheese .....	3	57	23	7	10	2.5										
Sugar .....	50*	90	90*	20*	51	18.0	15.1	1,649	545.8	500.7			134.7	108.8	128.0	92.7
Citrus fruit .....	—*	100	—*	60	19	10.9	7.9	896	1.5	1.5			1.6	—		
Tobacco .....	10	100	5*	58	31	1.3	0.1	165					32.3	5.0		
Ground-nuts .....	—*	100	5*	97	50	1.8	0.9	149	0.2	0.2			0.7	0.3		
Cotton .....	2*	100	100	100	56	3.6	1.7	1,147	37.0	32.4						
Wool .....	52	37	87	52	50	2.2										
Lead <sup>d</sup> .....	43*	80	66*	73	59	1.7	0.9	164	68.8	24.8			9.5	3.9		
Zinc <sup>d</sup> .....	59*	100	46*	68	67	1.9	1.0	224	69.6	30.9			8.3	3.0		
Copper <sup>d</sup> .....	37	96	48	100	68	3.1										
Petroleum, crude .....	13*	100	98	82	37	582.0	398.0	5,738	1,070.4	850.6						
Average and total.....	10	61	28	39	26			19,501	1,803.2	1,441.2	329.5	7.5	401.7	145.0	1,380.6	442.3

Source: Bureau of General Economic Research and Policies of the United Nations Secretariat, based on United Nations, *Commodity Survey, 1962*, and appendix tables 5B-1 and 5B-3.

<sup>a</sup> The commodities are the major items produced and exported by both industrial and primary exporting countries.

<sup>b</sup> Ratio of imports from external sources to apparent consumption or disappearance. The existence of significant non-tariff restrictions is indicated by an

asterisk (\*). As a result of the grouping of the members of the EEC into a single entity in this table, the classification of "significant non-tariff restrictions" differs somewhat from that used in table 5-10 and appendix table 5B-7.

<sup>c</sup> Value c.i.f. except in the United States.

<sup>d</sup> Consumption as refined primary metal; imports measured in metal content of ore, concentrates and unwrought metal (including blister for consumption in the case of copper).

through the setting of high market prices, any move to a system of support which would permit of readier evaluation of its cost to the community would normally be helpful in moderating the trade deterrent effect of income protection.

No less important is the philosophy underlying public policy in this area. To the degree that government measures are directed towards facilitating growth and change—rather than bolstering up traditional activities and sectors in which incomes are lagging—the process of expanding trade is likely to be made easier. Thus, a programme of special assistance to affected marginal producers, along the lines of the “adjustment assistance” provisions of the United States Trade Expansion Act of 1962, would contribute substantially to lessen the difficulties which tend to inhibit trade liberalizing measures. In a more dynamic economy not only would the possibility of increasing import/consumption ratios be much easier to accommodate, but total demand itself would probably be growing more rapidly.

In general, since the problem of the trade needs of the developing countries is in the first instance one of access to markets—and only after that of the terms of access—any liberalization programme undertaken by the industrial countries would have to comprehend all official measures which support or stimulate domestic production from sub-economic mines or farmland.

#### TRADE PREFERENCES: EXISTING AND POSSIBLE

The problem of trade preferences arises in two different contexts. The first is the future role of existing preferential systems; the second is the minority status of the developing countries as suppliers of so many of the primary commodities that are important in world trade and the related question of differences in supply elasticity.

As indicated above, the existing preference systems are generally designed to give selected developing countries access—duty-free in many cases—to the markets of the industrial countries sponsoring them. The chief exceptions to this pattern are the inclusion in the Commonwealth Preference System of several high-income countries—notably Australia, Canada and New Zealand—and the modifications in the system operated by France, and on a smaller scale by Belgium, Italy and the Netherlands, as a result of the evolution of the EEC with its gradual merging of the foci of these systems with the Federal Republic of Germany.

The marketing privileges which these preferential arrangements afford to many of the developing countries are undoubtedly discriminatory, yet their aboli-

tion, while assisting those developing countries not now in a favoured position in any trade nexus, might not be in the interests of the export earnings of the developing countries as a whole. If the latter criterion is adopted, a generalizing of the existing preferences among all developing countries would probably be a better solution. This might be brought about in stages, the first being an exchange of privileges between the two major systems, the less developed countries in the Commonwealth nexus agreeing to share their favoured position in the United Kingdom market in return for access to the EEC market on equal terms with the associated countries. Developing countries outside the system might be assisted at this stage, perhaps financially by the industrial countries involved, perhaps by being given special consideration in the allocation of quotas for commodities that were still kept under quantitative control. As the process of liberalization advanced, the preferential tariff gap might be steadily narrowed among all countries qualifying—by per capita income, export dependence or other criterion—for special treatment under the trade development programme. The objective would be duty-free entry into the participating industrial countries for as many primary commodities as possible for all countries eligible for this generalized form of preference.

Such a broadening of the preferential systems would mean some dilution of the privileges at present enjoyed by participating countries. This might require some compensatory action. In some cases it could take the form of special financial assistance designed to push forward the process of export diversification. Precedent for this exists in the fund set up in the EEC to compensate associated countries that are to lose privileged access to the French market. The need for compensation would be greatly reduced if the extension of the preference system to countries not now participants was accompanied by a simultaneous widening of the market granting preferential entry—by the accession of industrial countries not now according significant preferences to any developing countries.

In 1962, imports from the developing countries to the order of \$1.2 billion entered the major industrial countries duty-free in terms of some preferential arrangement (*see* table 5-10). Generalization of these arrangements among the industrial countries involved might be expected to enlarge this amount—marginally in the first instance, rather more as the benefits of the wider division of labour and the breakdown of previous compartmentalization come to be felt. Much more significant, however, would be the movement towards a preferential zero tariff on commodities now subject to duties in the industrial countries irrespective of source (though in some cases at a slightly lower rate for preferred sources).

In 1962 these commodities accounted for about \$6.3 billion of the imports of the major industrial countries from the developing countries. Of this amount, about \$3.2 billion represents items that were also under quantitative control (and might be dealt with separately) and a further \$1.4 billion represents items subject to revenue tariffs (and hence not a very promising field for expanding trade by cutting tariffs). It would be in respect of the remaining imports—about \$1.7 billion—that a reduction in duties might be expected to yield the greatest relative expansion. And if as a first step towards a general liberalization of trade in these items—brought about by a phased reduction in tariffs without distinction as to source—the tariff cuts were initially confined to eligible countries objectively selected, the impact on the trade of the developing countries might be significantly magnified.

Actions of this sort—which would comprehend the suggestion made above that where quantitative controls persist, the quotas allotted to developing countries might be duty-free—might be construed as discriminatory. But if regarded as a transitional measure—a stage in the process of liberalizing primary commodity trade—and if all countries were eligible, subject only to a set of specific criteria by which economic development status is defined, Governments might not consider it to be a serious breach of the “most-favoured-nation” principle of equality embodied in the GATT.<sup>39</sup> Justification for it would rest on grounds analogous to those used for protective tariffs themselves: just as the tariff is intended to shelter an activity for a period during which it is unable to withstand external competition, so the privilege of lower (or zero) tariff entry would be in recognition of the relative weakness of many of the under-developed countries in cases in which an expansion in their exports involves competition with exporters among the industrial countries. The availability of such an advantage might induce expansion in capacity or in productivity-raising investment necessary to make up for the lower supply elasticities that characterize the under-developed countries in a number of commodities.<sup>40</sup>

If such a preference system were regarded as potentially applicable to all items now subject to protective tariffs, it would affect less than 10 per cent

of the primary commodity imports of the major industrial countries from the developing countries. It might be acceptable as part of a broader liberalization programme under which reductions in duty were made in respect to imports from the preferred sources either in advance of or in excess of those made in respect to imports from industrial countries. Within an integrated programme, differential reductions in duties could be more readily conceived of as one stage in the concerted move towards the elimination of tariffs than as the creation of new discriminatory barriers.

Where the obstacles to trade are of an administrative rather than a tariff nature—and over a fourth of the primary commodity imports of the major industrial countries from the developing countries is now subject to quantitative control of one kind or another—discrimination is in most cases implicit in the system of allocating quotas. In the present context the problem is to direct the discrimination in a way that would better serve the purposes of the programme, namely, to facilitate the expansion in exports of the developing countries.

Where the administrative facilities provided by a system of quantitative control are available, the problem of preference can be dealt with simply through the allocation of quotas. Within the limits set by bilateral commitments and quality considerations, the industrial countries would be in a position to favour eligible exporters. This could be achieved by the allocation of quotas to suppliers among developing countries, appropriately defined, or where national quotas were set in global terms, they might be pooled by the importing countries involved and disposed of—perhaps through a commodity council—through an auction system on which only eligible exporters could bid.

Where the quota system was operated in conjunction with a custom tariff, a price preference might also be granted, stated amounts being given duty-free access. (In the EEC, where several such arrangements exist—for bananas entering the Federal Republic of Germany, for example—they originated in a desire of one member to retain some, at least, of the benefits of a low tariff where the common external tariff was set appreciably higher.) As suggested above, the tariff-free quota might be adopted as a means of conceding access on the most favourable terms—that is, at the price prevailing on the protected market—but only in respect of a limited volume of the commodity in question. Such quotas might be granted to eligible suppliers among the developing countries, thus giving them a more closely controlled degree of preference than would be the case if duties were simply cut or eliminated for favoured sources of supply.

<sup>39</sup> Under point viii of the GATT Programme of Action, a Working Party is at present studying the possibilities of less developed countries being accorded preferential treatment by the industrialized countries. The terms of reference of this Working Party, however, appear to limit its concern to the Committee III lists of “semi-manufactured and manufactured goods exported by less developed countries”. See General Agreement on Tariffs and Trade, *Summary Review of the Meeting of Ministers*, 16-21 May 1963.

<sup>40</sup> Much of this is also true in the case of manufactured goods. See chapter 7.

The mechanism adopted would obviously depend on the customary organization of the commodity market in question, subject to the general objectives of the liberalization programme, including in particular, the raising of import/consumption ratios and the strengthening and stabilizing of the world market at least to the point at which the prevailing price is more closely related to longer-run costs of production. The preference aspect would have to be fitted into this framework: its essential element would be the reduction of the protection accorded to domestic producers not generally but in a way that favoured the developing countries—appropriately defined—as sources of external supply.

#### ALTERNATIVES TO LIBERALIZATION

A realistic appraisal of what might be achieved for the export earnings of the developing countries by a systematic liberalization of primary commodity trade requires due weight to be given to a number of inhibiting factors. Among these, perhaps the most significant is the fact that in terms of value, about two-fifths of the primary commodity imports of the major industrial countries from the developing countries enter without constraint and almost two-thirds are admitted duty-free. The commodities which are subject to the most severe restraints, moreover, tend to be those that are produced in large quantities in the importing countries themselves. Where this is not the case, there are often one or more major producers and exporters among the industrial and centrally planned countries: as a result, the developing countries, regarded as a group, constitute a minor or secondary source of supply of most of the items entering world trade. And, added to all the limiting features of the existing pattern of trade and commercial policy barriers, are some important (but negative) characteristics of consumption and production. On the consumption side is the depressing effect of low demand elasticities: in the case of most primary commodities, neither an increase in incomes nor a decline in price ordinarily evokes much response from consumers. On the production side, the developing countries are generally less favourably placed to take advantage of any increase in access to overseas markets than are the exporters among the industrial countries: supply elasticity is often relatively low in the developing countries, at least in the short run.

These characteristics of the situation facing the developing countries do not amount to an argument against a liberalization programme; on the contrary, the existence of various “natural” inherent difficulties makes it all the more desirable that “artificial” policy-made difficulties be reduced to a minimum. At the same time, however, a review of difficulties does serve to temper undue optimism about the probable

results of liberalizing actions as such. And the question arises whether any supplementary measures might be undertaken to facilitate liberalization or enhance its benefits for the developing countries; or, where for some reason liberalization is likely to prove particularly hard to achieve or particularly slow in yielding results, whether any alternative action—perhaps of an interim nature—might serve the same ultimate purpose of raising the export earnings of the developing countries.

One such supplementary measure was suggested early in this chapter, namely, the stabilization of the world market. In so far as instability is caused or aggravated by the narrowness of the world market, the process of liberalization—which involves the raising of import/consumption ratios in countries practising protection—would in itself contribute to stability. Conversely, the lessening of instability would greatly facilitate the process of liberalization: the willingness of countries to increase their dependence on the world market is likely to depend in large measure on their confidence in the capacity of that market to furnish supplies on a regular basis and at reasonable prices. International collaboration to stabilize the world market may therefore be an essential preliminary to, as well as a concomitant of, the withdrawal of resources from sub-economic production in importing countries.<sup>41</sup>

In general, the price movements that might be expected to accompany the liberalization process would be downward on the domestic market of the importing countries (as high-cost domestic production is cut back) and upward on the world market (with the diversion to it of demand previously met internally). Where liberalization is not applicable or obtainable—in the case of the 45 per cent of the imports of the major industrial countries from the developing countries not now subject to restraint, tariff or administrative, and in the case of those commodities for which a reduction in domestic production in the importing countries proves politically impossible—other methods of raising the price on the world market might be sought.

In some instances this would be tantamount to suggesting that if it is impracticable to limit output in the importing countries—where it is in varying degree sub-economic and subsidized—then it might be limited in the exporting countries, in which production costs are generally lower. This is a patently inferior solution from the point of view of rational resources allocation on a global scale. Though this might serve to bring the world market price nearer to the higher domestic prices prevailing in the insulated importing countries—and hence increase export earnings—it is doubtful whether limitation

<sup>41</sup> The problems involved in such collaboration are discussed in chapter 6.

of output would be any easier to achieve internationally among exporters than nationally in individual importing countries. Nor indeed is it certain that were a higher world price actually achieved in this way, the result would not provide a further stimulus to domestic production in the importing countries. Gains to exporters from the price increase would then be offset by volume reductions and at the end of the process the distribution of world production would be even less rational than at the beginning.

It is evident that alternative methods of increasing export earnings need to be sought chiefly for those commodities in which trade is already virtually free. The scope for raising the world price of such items depends in the main upon the inelasticity of demand and the controllability of supply. In general, the less the risks of substitution and the higher the degree of concentration of production the better are the prospects for raising both price and export earnings.<sup>42</sup>

Where demand elasticity is particularly low and whatever taxes are levied on the commodity by the import country are likely to fall largely on the consumer, it is probable that no great advantage would accrue to exporters from a reduction in tax. As indicated earlier in this chapter, the fiscal losses from such a tax cut might be significantly greater than the gains the exporting countries could expect from the ensuing increase in consumption and price. In such cases, too, some alternative to liberalization might be sought. Perhaps the most obvious would be the granting to the exporting country of some share in the proceeds of the tax levied on its products.

It was estimated earlier in this chapter that about \$7 billion a year was now being collected by the major industrial countries from customs and fiscal duties on primary commodities imported from the developing countries. It is probable that most of the customs duties are best regarded as candidates for liberalization; demand and supply conditions are such that more is likely to be gained for the developing countries—especially in the longer run—from the progressive elimination of these duties than from their retention subject to a sharing of the proceeds. However, in the case of some of the customs duties that are actively used for fiscal purposes as well as most of the excise taxes that are levied entirely or largely on primary commodities imported from developing countries, the arguments for their reduction have been shown to be much weaker. It is through these charges, relatively few in number

and narrow in range, that most of the revenue is raised. A liberalization programme might well provide an option in the handling of such cases: instead of a cut in the rate of duty, a sharing in the proceeds might be contemplated, designed in principle to return to the producer the proportion of the tax not borne by the consumer. The exporting country would then receive an amount geared, if only notionally, to what might have been achieved through additional trade if consumption and c.i.f. price had responded to a lowering of duty.

Where the tax is levied on a commodity that is largely or entirely imported, the point at which collections are made would not be material: customs duties and excise or fiscal taxes would presumably be given like treatment. Drawn to a great extent from consumers, such transferred funds would be equivalent to an increase in price as far as the exporters were concerned, obtained without any of the difficulties and repercussions that would be involved in a concerted effort of exporters—by means of an export tax or its equivalent—to raise the market price itself. The market need not be disturbed by such transfers: they would take place between Governments, and producers as such would not be involved. When the Government was itself the exporter, any tendency to cut prices in order to capture more of the market and more of the tax premiums might be avoided by having the moneys paid into a central fund rather than to particular exporting countries. But the principal risk associated with such an arrangement would lie in the attitude of the importing country: being a tax levied on domestic consumers on behalf of developing countries it might be regarded as just one method of fulfilling a “foreign aid” commitment—replacing rather than adding to the funds allocated from general revenue for this purpose and raised by means of the ordinary battery of taxes.

Aid, of course, has become the conventional alternative to trade. In one sense, a liberalization programme might be regarded as the alternative to aid, and in this respect the widening of access to markets and the removal of the commercial policy impediments to exports would generally be preferable to an arrangement that was so closely akin to aid. Nevertheless, the use of a commodity for taxing purposes is not an unusual matter, and there would appear to be no reason why one country should not agree to use it on behalf of another which, though it is the source of supply of the commodity, is not in a position to administer such a tax.

Another supplementary measure half-way between trade and aid is compensatory finance. This is a general term used to describe any means of offsetting the income effects of market changes. Thus, short-

<sup>42</sup> The problems involved are discussed at some length in United Nations, “The Organization of International Markets for Primary Commodities” (mimeographed document E/CONF.46/P/5).



term fluctuations in export earnings—whether due to changes in prices or to changes in volumes—might be made good by compensatory movements of a capital nature. Similarly, the effect of changes in relative prices—the terms of trade, for example—might also be offset by financial transfers of a similar nature.<sup>43</sup> Such compensatory arrangements are conducted outside the market. The advantages of this are substantial when the market is a broad one on which price acts as a reliable guide to producers in making decisions about output and investment; they are much less so when the market is of a residual nature, shaped and limited by policy impediments originating for the most part in the importing countries. In the latter case something more than compensatory arrangements would be desirable: the instability giving rise to the need for compensation is merely a symptom of the narrowness of the market. Export earnings might be stabilized more successfully (and more permanently) by means of a liberalization programme which was aimed more directly at the obstructions to trade.

#### IMPLICATIONS FOR A PROGRAMME TO EXPAND THE FOREIGN EXCHANGE EARNINGS OF THE DEVELOPING COUNTRIES

The individual liberalizing measures that have been discussed in this chapter are all very familiar and the problems of giving effect to them have often been debated. The United Nations Conference on Trade and Development, however, introduces two essentially new dimensions—a common and urgent purpose on the one hand and on the other the opportunity for the major trading nations to work together on commercial policy actions which if co-ordinated would facilitate one another. Perhaps the most important thesis of this chapter, therefore, is that liberalizing measures which, if undertaken separately, might present difficulties and show relatively little result could, if enacted in concert as part of a joint effort, produce a much greater effect with appreciably less difficulty.

It was argued that to have its maximum impact, liberalization of imports would have to be effected in a concerted manner and across as wide a front as possible. This would seem to call not only for a set of principles of acceptable commercial behaviour but also for a more specific articulated programme of measures and targets, clear and firm in its objective and systematic in its phasing and administration, even though flexible in its content.

The objective of such a programme can be stated unequivocally: it would be to raise progressively the amount of foreign exchange at the disposal of the developing countries. The precise content of

the programme, however, as well as its phasing and administration, would have to be negotiated in a suitable international forum. Within the scope of the present chapter, it is possible to do no more than indicate the general nature of the action that would be required and suggest some of the specific components that the analysis of the preceding sections seems to point to.

Though the programme that seems to be called for would be essentially one of trade liberalization, it would involve other measures as well. Some of these other measures might be required to make liberalization feasible in certain commodities—as, for example, international action to stabilize the free market and domestic measures to transfer resources from uneconomic primary production—while others might be regarded as alternative or supplementary to the main programme. Among the alternative measures might be the sharing of some duty collections with the exporting country—where their removal would seem to be likely to yield less of an increase in foreign exchange earnings. Among the supplementary measures might be some form of organized restraint on supply in order to raise prices, and some system of compensatory movements of funds in order to offset the effects of price declines.

A basic principle underlying the liberalization programme proper would be the avoidance as far as possible of taxation or import restrictions on commodities originating in countries whose incomes are low or whose dependence on the commodity in question is high. Putting such a principle into practice would entail the systematic reduction of offending taxes and restraints in as expeditious a manner as possible.

Subject to some overriding target—denominated in more aggregative terms—and to some confrontation procedure, the pace and commodity composition of the liberalization process would in the last resort have to be set by each industrial country for itself. But being set in concert, with the industrial countries acting to some extent as a spur on one another and the developing countries pressing for specific concessions, and in the knowledge that the resultant expansion of trade would raise the rate of growth of the world economy as a whole, the targets and the composition of the country components of the programme would be formulated under a certain expansive pressure. This might be maintained by a system of regular reporting and periodic confrontation of participating countries.

While diversity both in import structure and in the distribution and magnitude of existing restrictions would seem to rule out a standard programme, certain guide-lines with regard to action and priori-

<sup>43</sup> Such transfers are discussed in chapter 9.



ties might be laid down. Some clues as to what may be desirable and feasible in this connexion may be distilled from the analysis of the current position contained in this chapter.

In most cases, for example, it is likely to prove easier to deal with restrictions that are purely revenue-raising than with those that provide protection for domestic producers. Hence, it may be possible to aim at a more rapid reduction of the former than of the latter. In the case of the revenue tariffs, the basic principle to be followed by the industrial countries might be the avoidance as far as possible of the use of commodities originating in the developing countries as a vehicle for indirect taxation. As many such taxes exist, however, the principle would have to be applied gradually and with discretion. On this basis, the most appropriate criterion for priority reduction might be the extent to which the tax in question affected imports of commodities from the developing countries. This should pose relatively little difficulty in cases in which the loss of revenue would be insignificant or in cases in which the duty is on commodities which are also subject to quantitative or other non-tariff restraint. Where, however, the tax or duty was an active fiscal instrument, its reduction might have to be spread over several years to facilitate budgetary adjustment. Where the reduction of such levies was either not fiscally acceptable or unlikely to result in any significant expansion in consumption or trade—as might be the case with some of the sumptuary taxes—the importing country might have the option of remitting part of the proceeds of the levy (the proportion depending on the extent to which its incidence could be assumed to fall on export proceeds) to the developing countries in which the commodities originated.

The complex of protective measures might most appropriately be dealt with as a whole, adjustments in tariffs, import quotas, licensing systems, mixing regulations, state purchasing methods and other mechanisms for quantitative control all being made simultaneously with a view to the attainment of targets nominated under the programme. The type of action required will obviously vary with the nature of the trade impediment, and the target might be set either in terms of the action itself or in terms of the results that are expected to flow from it.

Thus, in the case of a protective tariff, the target might be formulated as a progressive reduction in rates of duty, perhaps reaching free entry at the end of the programme period. This is the technique being used by the member countries of the EEC in respect to their trade with one another. Alternatively, the target might be denominated in terms of an import/consumption ratio, tariff rates

being reduced experimentally with a view to raising the import component of consumption of the commodity in question to a given extent or up to a pre-set proportion.

Where quantitative restraints are in effect, liberalization might entail a systematic conversion of the system to one of control by tariff, accompanied or followed by the progressive reduction of the tariff. In this case, where both tariffs and quotas now exist, it would be desirable to retain the tariff (rather than treat it as a revenue-raising impediment and reduce it under that section of the programme) and abolish the quantitative restraint. If, however, tariff control was not considered adequate, in the light of domestic stabilization needs, the liberalization process might consist of the steady enlargement of import quotas. This again might be denominated in absolute terms (as is done in the case of the "permanent" sugar quotas in the United States) or in terms of an import/consumption ratio (as is implicit in the system governing United States petroleum imports), the crucial factor for purposes of the programme being the rate at which the import volume or the import ratio was scheduled to increase. This might be expected to vary inversely with the existing relationship between imports and domestic production; even a doubling or trebling of imports might be feasible where a country is close to self-sufficiency in respect of the particular commodity.

Where appropriate and necessary in terms of the over-all objective of the programme, the tariff cuts and the quota enlargement could be phased in a way that would favour countries with low per capita income or high export dependence. Such phasing would, in effect, create new, though temporary, preferences. These would supplement the preference systems now in operation. In line with the broad liberalization objective—namely, to improve the efficiency of resource allocation on a global scale—these systems might be gradually widened to embrace all developing countries, objectively defined. The first stage in this generalization process might consist of the merging of the separate systems—most notably those centered on the United Kingdom on the one hand and the EEC on the other—effected by reciprocal exchange by the developing countries involved of the privilege of free entry into the principal industrial market of each system. Developing countries outside the various systems might be indemnified by means of special financial aid if their trade with the industrial countries concerned were adversely affected. If at the next stage the combined system were further generalized to incorporate all developing countries, the resulting dilution of the access privilege enjoyed by existing members might be offset

by an extension of the system to other industrial countries. By following a series of steps of this nature, the process of liberalization of particular commodity impediments might be phased in a way that would provide preferred (duty-free, wherever possible) entry into the industrial countries for exports from developing countries.

Regarded as a transitional arrangement, this would amount to liberalizing for the developing countries in advance of other exporting countries, in recognition of their competitive weakness as sources of supply of many commodities as well as their high propensity to import. It would be an integral part of the over-all liberalization programme, but deliberately phased to offset the disadvantages and meet the needs of the developing countries.

Though the programme would be specified in terms of commercial policy measures, its accomplishments would depend very largely on the extent to which the participating countries took appropriate complementary action on the domestic front. The more rational distribution of production which it might be hoped to achieve involves a cutting back of the proportion of output derived from sub-economic sources. Hence, systems of domestic subsidy would have to be re-examined with a view to separating desired income effects from undesirable production effects. In many cases this is likely to require a reduction in the output of particular commodities in particular industrial countries. The extent of such curtailment would depend on the rates of growth in domestic demand for the commodity and in the productivity of the domestic farms or mines involved. The ease and smoothness with which it could be carried out would depend on the rate of growth in the economy as a whole and the availability of machinery to assist in the redeployment of such resources as are required to move from high-cost primary production.

In general, the broader the programme, the wider the participation and the more serious the effort made to concert targets, high but realistic, and to follow up on year-by-year achievements, the easier is the adjustment process likely to prove. This suggests the need for a formal organization of the programme, embracing all the participating countries and involving not only the setting of targets but also regular reporting and confrontation procedures designed to maximize the possibilities of fulfilment.

This chapter has been concerned with only one element in the trade of developing countries, namely, the flow of primary commodities to the industrial countries. While it is true that this is by far the largest component of exports from developing countries, it would probably be unwise to attempt target setting solely in relation to this flow. Not only are there other markets from which the developing countries might seek to win an increase in their export earnings, but in the markets of the industrial countries they need also to expand their exports of secondary products. A programme limited to primary commodities might seem to be designed to retard the process of export diversification in which the main longer-term hope of the developing countries to bridge the foreign exchange gap probably lies. Moreover, it would tend to magnify the difficulties occasioned by the slowness of growth in demand for most primary commodities and by the importance of primary production in some of the industrial countries. The targets set for liberalizing primary commodity imports would thus be part of a broader pattern: they would be set within the framework of targets for total imports from the developing countries and these, in turn, would be related to even broader objectives for the over-all flow of foreign exchange—capital as well as current, aid as well as trade.

## Appendix A. Commercial policy obstacles affecting trade in particular commodities

### BASIC FOOD-STUFFS

As indicated in the section of the main body of this chapter entitled "Policy Impediments Affecting Primary Commodity Imports into the Major Industrial Countries", the basic food-stuffs—being largely the products of temperate agriculture and produced in substantial quantities in all the industrial countries—constitute the commodity group in which trade is subject to the greatest concentration of restraints.

All major industrial countries protect their *cereals* producers against external competition. In all cases except the United Kingdom, this involves the regulation of imports to permit the maintenance of domestic support prices at levels considerably above those ruling on the free market. The degree of protection against imports is generally highest in

the case of bread grains. For wheat it is higher in Japan and the EEC than in the United Kingdom and the United States.

In the United Kingdom, wheat and barley producers receive deficiency payments to bring their returns from the free market up to guaranteed levels. The only other measure which tends to limit the scope for imports is an arrangement that all locally produced grain be absorbed by the millers.

The United States maintains, as an adjunct to its price support programme, country quotas for imports of wheat for human consumption and of certain wheat products. These total 24,300 metric tons (wheat equivalent) a year, a figure that has not been changed significantly since it was established in 1941. Price support is accorded to wheat growers

planting within acreage allotments. Subsidies are paid on exports of wheat to bridge the gap between domestic and world price, and a large proportion of total exports is on special terms—as donations, for example, or sales for non-convertible local currencies.

In Japan, imports of rice, wheat and barley are licensed on a half-yearly basis and private traders are required to sell all they purchase to an official food agency which controls the cereals market.

In the European Economic Community, the variable levy system, which came into operation in mid-1962 in respect of all major cereals other than rice, has replaced previous tariff and non-tariff measures. Levies may, however, be supplemented by import restrictions.<sup>a</sup> The variable levies are designed to bring the offer price of the imported cereal to approximately the frontier equivalent of the administered internal "target" price. During the transitional period, until a common set of domestic prices is set, there will be separate levies in each member State, the size of the levy—which may vary from day to day—being determined by the internal price in the importing country and the offer price at the frontier. The level of the common internal price will in these circumstances be the major influence on the course of production and the scope for imports into the Community. The first price fixing was to have been carried out in the spring of 1964 on the basis of recommendations of the EEC Commission made in November 1963. The effect of these recommendations would be on the one hand to lower grain prices in the Federal Republic of Germany and raise them in most other markets and on the other hand to raise coarse

<sup>a</sup> Imports from countries with state-trading systems are subject to special arrangements. Under a regulation which came into force in February 1963, member countries of the EEC take into account "value quotas" in bilateral agreements which they may make with state-trading countries. In principle, these quotas are not to exceed the average level of imports from the country in question for the years 1960 and 1961. In the case of rice, a single price market in the four non-producing countries is to be created by mid-1964 when a system of single threshold price plus variable levy becomes effective.

grain prices relative to those of bread grains (see table 5A-1).<sup>b</sup>

Apart from the stimulus that might be expected to come from the higher prices—especially in France where there are considerable reserves of arable land—the enlargement of the protected market for internal producers, which raises the possibility of some displacement of external supplies of wheat (chiefly by producers in France), rice (by Italian producers) and coarse grains (by both countries) will in itself tend to restrict market opportunities for external suppliers. Rice imports from developing countries associated with the Community, however, are to be protected from the effects of the variable levy, that is to raise the c.i.f. price of rice from other countries to the fixed threshold price.

One result of the prevalence of non-tariff measures affecting imports of the major cereals into the industrial countries is that the tariff, where it exists, ceases to be a major instrument of protection. In the case of wheat, the principal cereal, Japan and the United States are the only industrial countries having operative tariffs; the United Kingdom—the largest importer—grants tariff-free entry for wheat from all sources. There are higher tariffs on wheat flour in all three countries, though the United Kingdom maintains free entry for flour from preferential sources. With regard to rice, tariff duties are appreciable only in Italy, Japan and the United States and, as in the case of wheat, they are accompanied by quantitative obstacles which are of greater significance for primary exporting countries.

Trade in the coarse grains is also subject to quantitative and tariff restraints in most of the industrial countries. Barley, which is the most widely grown, is subsidized to some extent in almost all of them and is restricted rather more than maize whose importance as a raw material input in the livestock industry has increased rapidly in recent years.

<sup>b</sup> In the event, the EEC Council of Ministers, meeting in April 1964, failed to agree to the proposed price schedule, the principal opposition coming from the Federal Republic of Germany. Another meeting, in June, was no more successful, the Ministers deferring the question of a common price level to further discussion in December 1964.

Table 5A-1. European Economic Community: Proposed Schedule of Grain Prices, 1964/65

Grain	Price in dollars per ton			Percentage change in target price, compared with 1962/63 levels in				
	Target <sup>a</sup>	Intervention <sup>b</sup>	Threshold <sup>c</sup>	Belgium	Federal Republic of Germany	France <sup>d</sup>	Italy	Netherlands
Wheat	96.37	89.57	95.24	-6	-19	-1	-13	+ 5
Rye	85.02	79.36	83.90	+4	-21	+7	e	+22
Barley	83.90	78.23	82.76	-3	-19	+6	+26	+ 6
Maize	85.02	79.36	83.90	e	e	-3	+30	e
Durum	113.38	106.57	112.24	e	e	+3	e	e

Source: *European Community*, No. 67; United States Department of Agriculture, *European Economic Community Grain Regulations*, FAS-M-147 (Washington, D.C.).

<sup>a</sup> Base price for sales, set in the light of conditions on the "least adequately supplied" (highest cost) regional market.

<sup>b</sup> Producers' guaranteed minimum support, set 0.5 per cent below the target price.

<sup>c</sup> Frontier price for imports, set at a level

to ensure that imports cannot be sold below the target price on the "least favoured" (or highest cost) market. The c.i.f. price is raised to the threshold price by means of a variable levy.

<sup>d</sup> In relation to 1963/64 prices, the 1964/65 targets are 8 per cent higher for wheat, 16 per cent higher for barley and one per cent higher for maize.

<sup>e</sup> Domestic production insignificant.

As in the case of the cereals, all industrial countries exercise some form of control over imports of *sugar*, generally in conjunction with support programmes for domestic production.

Exporting countries participating in the Commonwealth Sugar Agreement are assured of an outlet in the United Kingdom for specified quantities of sugar (totalling about 1.5 millions tons in 1962) at annually negotiated prices, intended to be "reasonably remunerative to efficient producers". (The negotiated prices were below free market prices during the first three years of the Agreement, 1950-1952, but above world prices for most of the time between 1953 and 1962.) The quotas allocated at the negotiated price are increased from year to year in proportion to any increase in consumption in the United Kingdom above a basic 2.59 million tons a year. Domestic production in the United Kingdom, which has risen in line with productivity gains and in 1962 stood at about 0.8 million tons, is purchased at prices fixed by the Government. Under the Agreement, exporting countries have additional outlets in Commonwealth preferential markets, including the United Kingdom, at free market prices, subject to the limitation that their total exports to those markets do not exceed specified individual quotas, which totalled about 2.2 million tons in 1962 (*see* table 5A-2). The Agreement does not include any limitation on imports of sugar by the United Kingdom from non-member countries.

In the United States, imports of sugar are controlled under a quota system which allocates about 40 per cent of basic sugar requirements to foreign suppliers (3.5 million tons in 1962) and 60 per cent to domestic producers (5.3 million tons in 1962).<sup>c</sup> Additional requirements over and above the basic 8.8 million tons are allocated 35 per cent to foreign suppliers and 65 per cent to domestic producers. Of the basic import quota of 3.5 million tons, about 1.35 million tons—the previous Cuban quota—is held in reserve and regarded as a "global quota" to be allocated on a first-come-first-served basis at the equivalent of world market prices, subject to special consideration being given to countries of the western Hemisphere and to those countries purchasing United States agricultural commodities. The remainder (2.18 million tons) of the basic import quota is allocated to the Philippines (0.95 million tons)<sup>d</sup> and to twenty-eight foreign suppliers (1.23 million tons) as so-called "permanent" quotas. The United States Sugar Act of 1962 requires the imposition of fees on imports of sugar under all permanent quotas other than that of the Philippines with the object of recapturing a proportion (20 per cent in 1963 and increasing year by year) of the difference, if any, between the United States domestic price and the world price at which sugar is available for import. Imports under the global quota are subject to fees designed to recapture the whole of any premium above world price.

Japan maintains a floor price for domestically produced sugar and exercises control over imports both quantitatively and by means of a high tariff.

The member countries of the European Economic Community, which at present restrict imports of raw sugar in the interests of producers at home or in associated overseas territories, have not yet formulated their régime for sugar under the common agricultural policy. In the meantime the common external tariff has been set at 80 per cent. As with

other farm products, the creation of new preferences for producers inside the Community (principally France and the Netherlands in the case of sugar) will probably tend to retard if not reverse the growth of import requirements from external suppliers.

Tariffs and internal taxes also constitute significant barriers to imports of sugar in most industrial countries. The levels of non-preferential tariffs range from 12 per cent in the United States to as much as 210 per cent in Japan. Internal levies are prevalent; they apply to both imported and domestic sugar, but in Japan and the United Kingdom, where less than a fourth of requirements is produced locally, they fall primarily on imports. The United States, which has a relatively low tariff, operates the system of import fees mentioned above; in the United Kingdom (which maintains tariff-free entry for Commonwealth sugar) there are variable surcharges on all sugar imported and home-produced—as well as on imported goods with a sugar content, the proceeds being used to finance the acquisition of the local crop and to stabilize domestic prices.

In the industrial countries, *meat* imports generally constitute residual supplies supplementing a much greater domestic output. In the case of cattle-meats and sheep-meats—the main classes of meat exported by the primary producing exporters—the United Kingdom and Italy are the only major industrial countries dependent on imports for a significant proportion (over one-eighth) of their total requirements.

In support of internal livestock policies, meat imports are generally subject to quantitative control; the two important exceptions being the United Kingdom and the United States. The United States market is not restricted by any non-tariff measures (other than those instituted for health reasons)<sup>e</sup> or by any sustained programme of support for domestic production. The rapid rise in imports of beef from Australia in recent years, however, has been the subject of bilateral discussions designed to ensure that future growth in domestic demand is shared to a greater extent than in the past quinquennium by domestic producers. Apart from a recent bilateral arrangement regarding the rate of flow of beef from Argentina, the United Kingdom also provides unrestricted entry for meats; it does, however, guarantee domestic prices—through deficiency payments for locally produced fatstock—which are usually appreciably higher than free market prices.

The countries of the EEC have not yet promulgated regulations to implement the common policy in respect of cattle-meats and sheep-meats adopted at the end of 1963. Such regulations are to include Community-wide "guide prices", to accompany the reduction in internal duties and progressive alignment to the common external tariff. The import régime envisaged for beef and veal involves not only external tariffs, but also levies on imports in cases in which offer prices are below the set levels, supplemented by import certificates for frozen beef and veal as well as for preserved and canned meats of all kinds. One exception to this is the guaranteed admission of a quota of 22,000 tons of frozen beef a year at the bound General Agreement on Tariffs and Trade rate of 20 per cent. Another exception is a duty-free quota of 16,000 head of cattle per year to accommodate a long-term agreement between the Federal Republic of Germany and Denmark.

<sup>c</sup> Before the Sugar Act of 1962, the shares allotted to foreign and domestic suppliers were 46.5 per cent and 53.5 per cent, respectively.

<sup>d</sup> Under the Laurel-Langlely Agreement, the Philippines has a guaranteed sugar export quota to the United States of approximately 0.89 million tons a year until 1974.

<sup>e</sup> In the United States, a long-standing ban on imports of fresh, chilled and frozen meat from countries subject to rinderpest or foot and mouth disease was extended in 1959 to certain cured meats of chief interest to Latin American exporters.

Table 5A-2. Sugar: Exports of Selected Countries and Quotas Allocated Under the Commonwealth Sugar Agreement and the United States Sugar Act, as amended in 1962

(Thousands of metric tons, raw value)

Country or region	Total exports, 1962	Commonwealth Agreement quotas, 1962 <sup>a</sup>			United States Sugar Act quotas on basis of annual consumption requirement of 8.8 millions tons
		Negotiated price quotas <sup>b</sup>	Additional at free market prices <sup>c</sup>	Total <sup>d</sup>	
Argentina .....	33				18
Australia .....	1,173	319	291	610	36
Brazil .....	479				164
British Honduras .....	24	19	6	25	9
Barbados, British Guiana, Jamaica and Trinidad .....	1,073	681	233	914	82
China (Taiwan) .....	611				32
Colombia .....	66				27
Costa Rica .....	24				23
Cuba .....	5,131				1,346 <sup>e</sup>
Dominican Republic .....	846				290
East Africa .....	36	5	5	10	
Ecuador .....	64				23
El Salvador .....	21				9
Fiji Islands .....	200	127	46	173	9
French Guiana, Guadeloupe and Martinique .....	263				27
Guatemala .....	35				18
Haiti .....	35				18
India .....	405				18
Mauritius .....	515	356	122	478	
Mexico .....	350				172
Netherlands .....	18				9
Nicaragua .....	40				23
Panama .....	4				14
Paraguay .....	3				9
Peru .....	463				172
Philippines .....	1,147				953
South Africa .....	494	<sup>f</sup>			18
Foreign quota total.....		1,507	703	2,210 <sup>g</sup>	3,529 <sup>h</sup>
Domestic production <sup>i</sup> .....				810	5,271

Source: International Sugar Council, *Statistical Bulletin and Sugar Yearbook* (London); United States Department of Agriculture, *Foreign Agriculture Circular*, FS4-62, August 1962.

<sup>a</sup> The negotiated price quotas are the only firm purchase commitments under the Agreement. Additional amounts may be sold in the United Kingdom and other preferential markets over and above the negotiated price quotas up to the limits specified.

<sup>b</sup> In 1962, the negotiated price, excluding the value of an arrangement under which buyers are liable for the excess of freight and insurance over pre-war rates, was £45.76 per long ton, equivalent to 5.72 cents per pound.

<sup>c</sup> Average in 1962, 3.20 cents per pound, c.i.f. United Kingdom.

<sup>d</sup> Subject to the reallocation of unused portions.

<sup>e</sup> Suspended and regarded as a "global quota".

<sup>f</sup> South Africa ceased to be a party to the Commonwealth Sugar Agreement in December 1961.

<sup>g</sup> Total imports by the United Kingdom from all countries in 1962 amounted to 2,260,000 tons (raw value), including refined sugar.

<sup>h</sup> Including small quotas—1,200 tons in total—allocated to Belgium, Canada, Hong Kong and the United Kingdom and a "reserve" of 9,100 tons. The average price in 1962 (estimated f.o.b. New York by deducting from the domestic price an allowance for freight, insurance and import duty) was about 5.83 cents per pound.

<sup>i</sup> Actual production of domestic beet sugar in the United Kingdom; basic quota for local cane and beet production (including that of Puerto Rico and the Virgin Islands) in the case of the United States.

Though the protective function is generally performed by quantitative controls, all the major industrial countries levy duties on meat imports, the chief exception being the United Kingdom in respect of lamb and mutton, which is admitted duty-free from all sources. Duties on carcass beef and lamb and mutton are generally of the order of 10 to 20 per cent *ad valorem* or its specific equivalent. Typically, the rate on

cattle for slaughter is lower while that on canned or cured meats is higher. The proposed common external tariff of the European Economic Community is 16 per cent on live cattle, 20 per cent on carcass beef and sheep-meats, 22 per cent on canned mutton and lamb, 26 per cent on canned beef and 16 to 24 per cent on dried or smoked meat other than pig-meat. The fact that the over-all degree of protec-

tion accorded domestic meat producers against competition from imports is generally very high is reflected in the wide spread of internal prices. In 1961/62, for example, producer prices of beef and veal in western Europe ranged from 30 to 80 per cent above the free market level, the highest being maintained in the three leading European importers of beef—the Federal Republic of Germany, Italy and the United Kingdom. One consequence of these high producer prices has been an increase in the degree of self-sufficiency in beef and veal: taken together the main meat importing countries in western Europe now import less than before the war not only in relation to consumption but also in absolute terms. Offsetting this trend has been the emergence of the United States as a large and growing net importer of beef and veal and mutton and lamb, nearly all in frozen, boneless form for use in manufacturing.

Trade in the types of *fish* exported by the primary exporting countries—mainly white (salt-water) varieties—is subject to impediments of varying coverage and severity in most of the industrial countries. Non-tariff measures are most comprehensive in Japan, where all imports of fish are subject to licence, in the Netherlands, where there are restraints on all salt-water fish (fresh, chilled or frozen) and on herring (salted, dried or smoked) and in France, where quantitative controls are linked to internal marketing procedures and apply to all salt-water fish (whether fresh, chilled, frozen, smoked or dried) with the exception of haddock, stockfish and salted herring. But there are also selective restrictions in effect in Belgium (on herring) and the Federal Republic of Germany (on fresh and chilled carp and salted herring). Trade in crustaceans and molluscs, on the other hand, is almost entirely free of quantitative controls.

With the exception of the United Kingdom, which accords duty-free entry for Commonwealth suppliers, all the industrial countries levy tariffs against imports of fish. Rates on fresh, chilled, frozen and salted fish range from 10 per cent to 30 per cent in France, rather less in the other major importers. Rates on crustacea and molluscs are generally higher. The EEC has not yet adopted a common policy in respect of fish. The significant range in the common external tariff is 10 to 25 per cent, but Italy has been guaranteed a duty-free quota for tuna—an important export of several developing countries—amounting to 40,000 tons in 1964.

All major industrial countries maintain non-tariff barriers against imports of *dairy products*, and most operate price support programmes or their equivalent for domestic producers. The item of principal interest to the primary exporting countries is butter. Until recently, there was one major unrestricted import market for butter, namely, the United Kingdom. However, in the face of mounting pressure of supplies (some emanating from marginal traders), this market was closed in November 1961 and, with the agreement of the principal traditional suppliers, a system of import quotas was introduced as a stabilizing measure.<sup>†</sup> In the first full year, ending March 1963, import quotas totalled 396,500 long tons, and for the year ending March 1964, allocations were set at 437,100 long tons, compared with actual imports of 428,000 long tons in 1961 and average

annual imports of 390,000 tons in the previous quinquennium.<sup>‡</sup>

The United States also supports producer prices and operates import quotas on various dairy products, including butter and certain cheeses. The annual quota for butter imports at present stands at about 320 tons (equivalent to about 0.05 per cent of consumption), and the quotas for the controlled cheeses at about 13,000 tons a year. Actual imports of all cheese amounted to 35,000 tons in 1962 (equivalent to about 5 per cent of consumption).

Japan administers price supports and import licensing of butter and other dairy products, and maintains a duty of 45 per cent on imports. In the member countries of the EEC there are measures which have the effect of quantitative barriers. The common policy agreed to at the end of 1963 will involve a form of variable levy, duties being higher on lower-priced imports (from New Zealand, for example) than on higher-priced imports (from Denmark, for example). During the transitional period, until internal prices are fully aligned in 1966, national support measures—such as the deficiency payments made in the Federal Republic of Germany—will continue in operation.

Apart from the quantitative controls, the major industrial countries also provide tariff protection for their dairy industries. The United Kingdom, however, has for long maintained duty-free entry for butter from Commonwealth countries, and in 1963 it suspended its duty of 15 shillings per cwt (about 5 per cent at current prices) on butter from other countries, for the duration of the present quota system for imports.

#### *Other food-stuffs and tobacco*

In contrast to the extensive controls exercised over imports of temperate farm products, imports of the principal *beverage crops* are almost completely free of quantitative restraints in the major industrial countries. In the raw state, coffee is controlled only in France and black tea only in Japan. As in the case of other commodities, processed forms are rather less free of restraints.

The beverage crops are among the commodities which, having a fairly inelastic demand, provide an easy source of indirect tax revenue. All major industrial countries except the United States impose customs duties on imports of beverage crops in the raw form. These range, for coffee, up to 35 per cent *ad valorem* (in Japan); for cocoa beans, up to 9 per cent (in the Federal Republic of Germany); and for tea, up to an *ad valorem* equivalent of 55 per cent (also in the Federal Republic of Germany). The United Kingdom permanent tariff accords low preferential margins to Commonwealth countries. The European Economic Community has prescribed external tariffs of 5 per cent for

<sup>‡</sup> The 1963/64 quotas (comprising basic quotas and additional allocations totalling 27,080 tons) are distributed as follows (in long tons):

New Zealand .....	165,800
Denmark .....	96,100
Australia .....	75,100
Poland .....	18,000
Ireland .....	17,600
Netherlands .....	15,100
Finland .....	12,900
Argentina .....	11,600
Sweden .....	6,000
France .....	4,600
Austria .....	2,200
South Africa .....	2,100
Norway .....	2,000
Kenya .....	1,900
All other countries .....	6,100

<sup>†</sup> The decline in free market price in the wake of sudden increases in exports—some from subsidized sources—has from time to time been so great as to make it “unremunerative for even the lowest-cost producers”. (See Food and Agriculture Organization of the United Nations, *Means of Adjustment of Dairy Supply and Demand* (Rome, 1963).)

cocoa, 10 per cent for coffee and 11 per cent for tea.<sup>h</sup> Several industrial countries levy internal revenue charges on one or more of these items and these are generally considerably higher than the import duties. In 1962, relative to average import unit value, they ranged up to 71 per cent for tea and 99 per cent for coffee in the Federal Republic of Germany, 74 per cent for cocoa and 134 per cent for coffee in Italy. Over and above the charges levied on the raw products, there are in some countries—the United Kingdom, for example—excise taxes on some of the manufactures into which they go, most notably chocolates and other items of confectionery. Even if their incidence fell largely on consumers, taxes of this nature would tend to restrain consumption and hence imports.

Imports of *bananas* are controlled in three of the major industrial countries—France, Italy and the United Kingdom. The object is less to influence the volume than the geographical pattern of imports, favoured access being accorded to dependent (or formerly dependent) areas. The restraint is necessary because of the higher costs prevailing in the sheltered sources—Somalia and the Caribbean islands—and the higher consumer prices are reflected in lower per capita consumption. Imports are not subject to control in the United States—by far the largest importing country—or in Japan or the other member countries of the EEC.

Import duties are levied in most industrial countries, with the notable exception of the United States, which grants free entry. They are probably a significant impediment to trade in Japan, where the tariff is 30 per cent, and the Benelux countries (17 per cent). The national tariff in the Federal Republic of Germany stands at 6 per cent, but provision has been made under the Rome Treaty for duty-free import quotas, which amounted to 483,000 tons in 1962 and 361,000 tons in 1963.<sup>i</sup> The common external tariff of the EEC has been set at the relatively high rate of 20 per cent. As this is calculated on c.i.f. value and as freight and handling charges are particularly high for fruit of this nature, the incidence of existing tariffs is several times the quoted rate when related to the f.o.b. returns to exporters.

Many industrial countries follow fairly liberal import policies with regard to *citrus fruits*, but where there is significant domestic production—as in Italy, Japan and the United States—there are also quantitative restraints on trade. Tariffs, though generally moderate, are widespread and in France—where a system of reference prices and variable levies is in operation—they constitute an important obstacle to imports. The United Kingdom grants duty-free entry to Commonwealth suppliers and levies a duty of 10 per cent on citrus fruit from other sources. A common external tariff of 20 per cent is proposed in the European Economic Community. The position of external suppliers depends largely on the extent to which Italy—whose exports of oranges have been declining in relative terms in recent years—proves capable of taking advantage of the improved access to other markets within the EEC.

<sup>h</sup> The EEC countries and the United Kingdom have suspended their customs duties on tea for two years from 1 January 1964; any permanent reduction or elimination of these duties would be made in the framework of the General Agreement on Tariffs and Trade.

<sup>i</sup> Under a protocol to the Treaty of Rome, the Federal Republic of Germany is allowed a duty-free import quota of 290,000 tons plus half the amount by which this basic quota has been exceeded in the year preceding the one for which the new quota is being determined. An additional duty-free quota may be granted—as it was in 1962 and 1963—but only on consultation with the associated States from which most of the Community's supply is expected to be drawn.

As in the case of the beverage crops, imports of *spices* are not quantitatively restricted by the major industrial countries, except for a mixing regulation for pepper in France. Tariffs on unground spices, though widespread, are low in most countries. However, in the case of pepper—in terms of total value, the most important spice entering international trade—they reach 29 per cent in France and 48 per cent in Italy. Tariffs are usually higher on processed spices, being protective of local mills. As demand for spices is relatively inelastic with respect to price, existing tariffs are unlikely to affect appreciably the volume of exports by developing countries; however, they tend to reduce the share of final consumers' expenditures on these commodities flowing back to the primary producers.

With the exception of the Netherlands and the United Kingdom, all the major industrial countries intervene in their domestic markets for *tobacco*—by way of producer supports as in Belgium and the United States, by way of import control as in France or by way of both support and control as in the Federal Republic of Germany, Italy and Japan. The State is itself involved in trading in Italy and Japan, primarily for revenue purposes (though this also facilitates protection) and in France in the interest of associated overseas areas. The Federal Republic of Germany operates mixing regulations to assist the disposal of locally produced leaf. Over and above these administrative restraints, there are various bilateral arrangements affecting the flow of trade. For example, the United Kingdom has arrangements to import leaf from the Federation of Rhodesia and Nyasaland (90 million pounds or more each year, if quality and price are satisfactory, an amount equivalent to about one-fourth of total requirements), and from Bulgaria and Yugoslavia; the United States has agreements with the Philippines and Turkey; and members of the EEC have undertaken to purchase increased quantities of tobacco from Greece and Turkey, which have become associated with the Community.

All the industrial countries tax tobacco or tobacco products both by customs duties and by excise duties and in many cases these reach very high levels. In the United Kingdom, the largest importer, such taxes amount to about twelve times the unit value of imports (the preferential tariff being only marginally below the general level). In Japan the tariff is 355 per cent, in the Federal Republic of Germany it is equivalent to 62 per cent *ad valorem* on the basis of 1962 import values. The profits of state trading agencies constitute a similar (if implicit) form of taxation and these are sometimes high.

The EEC has prescribed a common external tariff for standard types of tobacco of 28 per cent, subject to a maximum equivalent to 17.2 cents per pound and a minimum of 13.2 cents per pound. These specific limiting rates would apply to tobacco valued at 61 cents per pound and 47 cents per pound respectively; in 1962 the average unit value of EEC imports from the developing countries was about 42 cents per pound. In the absence of offsetting influences, the enlargement of the protected market for producers in the Community and associated countries may be expected to affect adversely the prospects for external suppliers of tobacco. In 1962 about a sixth of EEC imports of tobacco came from primary exporting countries outside this potential tariff wall.

#### *Oil-seeds and oils*

Trade in oil-seeds—the raw materials for an important processing industry in the industrial countries—is relatively free of quantitative barriers. Nevertheless, with the single exception of the United Kingdom, all the major industrial



countries maintain controls over at least one of the seeds or their oils—either in pursuance of a domestic support programme or, in the case of France and Italy, partly as an adjunct to preferential arrangements with overseas suppliers—while in the Federal Republic of Germany, as well as in France, there are quantitative barriers against a wide range of vegetable oils, including some which are potential substitutes for local products. The United States, which supports domestic prices of ground-nuts, soya beans and cotton-seed, restricts imports of ground-nuts to a quota of about 800 tons per year (about one-thousandth of domestic consumption).

Of the vegetable oil-seeds and oils of chief interest to the primary exporting countries, ground-nuts and oil are subject to the most extensive import restraints. Imports of ground-nuts are controlled in Japan and the United States, and on oil there are quantitative restrictions in the Federal Republic of Germany, France, Japan and the United States as well as tariffs of 10 per cent or more.<sup>1</sup> Castor oil is also subject to widespread import restraints, particularly in Europe.

Except in the case of ground-nuts (as noted above), linseed (chiefly from North America) and soya beans (exported chiefly by the United States), the effective tariffs on oil-seeds are zero or comparatively low. In the United Kingdom, there is a tariff of 10 per cent on some oil-seeds—ground-nuts, copra, palm kernels and linseed—but this is a preference margin; the Commonwealth tariff is zero. All the European Economic Community countries have zero or low tariffs on oil-seeds and the common external tariff has been set at zero.

Tariffs on the oils are more prevalent and higher than those on seeds, most of them being designed to protect a domestic expressing industry. Among the highest rates are those that the United States and Japan levy on ground-nut oil, soya-bean oil and cotton-seed oil, imports of which compete either directly or indirectly with domestic products. In the United Kingdom, however, while the tariffs on vegetable oils imported from non-Commonwealth countries fall within the 10 to 15 per cent range, preferential rates are zero.

In the EEC the olive oil market is to be insulated by means of a system of target, intervention and threshold prices. This will involve the building up of a buffer stock and, if target prices are lowered, the subsidization of olive growers. These operations will come into force in 1965 and will be financed chiefly from an excise tax on other vegetable oils and margarine. Domestic colza producers are to be similarly subsidized. Seed producers in the associated countries, while not enjoying any tariff privilege, will also be eligible for financial assistance if world prices decline below the Community-determined intervention prices. Oil producers in the associated countries will be protected by the common external tariff ranging from 4 per cent for castor oil to 13 per cent for olive oil.

#### *Raw materials and fuels*

On the whole the restraints on trade in raw materials are less frequent and less severe than those on food-stuffs. This is partly a reflection of their importance as direct industrial inputs and the general desire to avoid unnecessary increases in cost. Of equal importance, however, is the fact that in the case of these commodities there is relatively less domestic production within the industrial countries. Of the imports of raw materials into the major industrial countries from

developing countries, about 60 per cent (by value) enters without commercial policy hindrance. Wherever imports do compete seriously with local production, however, protective action is the common result. In general this has been effected by tariffs, but in some cases these have been supplemented or displaced by quantitative controls.

As the raw materials for the economically important textile industries, the main *apparel fibres*, cotton and wool, are relatively free of import restraints in the industrial countries. With the exception of the United States, which is a net exporter of cotton, the major industrial countries import practically all their requirements of raw cotton; and all of them import a large proportion of their requirements of raw wool.

The United States, which supports the price of domestic cotton, limits imports of raw cotton to specified quotas, totaling about 125,000 bales a year. This amount has remained unchanged since quotas were introduced in 1939. Of the total, about 30,000 bales is for upland varieties of under one-and-one-eighth inch staple and is allocated to country quotas—three-fourths to India and Mexico—while the remainder, for long-staple varieties, is a global quota. In the aggregate, cotton imports into the United States are equivalent to about 2 per cent of consumption. As domestic prices have been well above world market prices in recent years, the United States provides export subsidies for raw cotton.<sup>2</sup> A certain amount of United States cotton also reaches export markets through barter transactions.

There are no other quantitative restrictions on cotton in the major industrial countries and tariff restraints are few and low. The EEC has fixed a zero tariff on cotton, and the present Italian tariff will accordingly be removed.

The flow of trade in raw wool is completely free of quantitative restraints in the major industrial countries and is free of tariff restraints in all but the United States. In contrast to this, wool which has undergone some processing is generally subject to a duty designed to protect the local industry. The United Kingdom provides price support of a minor order for domestic wool production.

In the United States, wools for use in rugs and carpets (since 1958, of counts up to 44's to 46's) are admitted free of duty as a complementary type of import since virtually all the domestically produced wool is used for apparel. The finer wools are subject to a tariff of 25.5 cents per pound clean, equivalent to about 27 per cent on the basis of 1962 prices. The United States also supports domestic producers—through price guarantees financed from the proceeds of the import duties on raw wool and woollen goods. The object of this support, in the words of the National Wool Act of 1954, is "to encourage the annual domestic production of approximately 300 million pounds of shorn wool, grease basis". In the four marketing years, 1959 to 1962, deficiency payments ranging from 30 to 48 per cent of realized market prices were required to bring average producer returns up to the incentive level of 62 cents per pound, greasy.<sup>1</sup> This probably

<sup>2</sup> Subsidies are also paid on the cotton content of exported textiles, but the domestic cotton manufacturing industry is not at present relieved of the cost disadvantage, in respect of sales on the domestic market, arising out of the payment of above-world prices for raw cotton. Proposals by the United States Administration designed to enable United States manufacturers to buy cotton at the world prices were under discussion in late 1963.

<sup>1</sup> The United States levies specific duties on wool textiles so that this import duty on raw wool does not hamper domestic manufacturers of wool textiles in competing against imports. In addition to the specific duties, *ad valorem* duties are imposed on some wool manufactures.

<sup>1</sup> Japan has indicated that in October 1964 quantitative controls will be removed from all edible oils and import duties on soya beans and soya-bean cake will be abolished.



helped to stem the decline in domestic production but the target of 300 million pounds has not been reached: output averaged about 280 million in the second half of the nineteen fifties, compared with 425 million in the quinquennium before the war. This reduction was shared by imports, consumption of apparel wool having declined by more than a fifth.

In their raw form the principal *non-apparel fibres* of interest to the developing countries—jute and mesta, sisal and henequen, abaca, ramie and hemp—enjoy virtually unrestricted entry into all leading industrial countries. There is a low tariff on jute, ramie and abaca in Italy (3 per cent) and on hemp in the United States (about one per cent). The EEC has prescribed a zero external tariff. It is only when the fibres have undergone processing—into cordage or fabric, for example—that exports meet significant restraints.

Trade in *natural rubber* is free of serious restraints—quantitative or tariff—as far as the industrial countries are concerned. Synthetic and reclaimed rubbers, on the other hand, are subject to duties in many countries, though these are generally low.

No quantitative barriers are imposed by any of the main industrial countries against imports of the chief *raw hides and skins* (including fur skins) entering international trade, and none is proposed by the European Economic Community. The great bulk of trade is also free of tariffs; such duties as exist apply only to certain types of hides or skins and they are generally low. However, policies of support for the domestic livestock industry, undertaken in almost all the major industrial countries, have the incidental result of encouraging production and hence narrowing the scope for imports of hides and skins. And in most countries the more processed forms of these commodities—leathers and furs—are subject to an import tariff of a protective nature, plus in some cases internal excise taxes which must, to some extent, inhibit consumption.

Like most other basic raw materials, *timber* also moves free of quantitative restraints into all major industrial countries, subject to the minor qualification that two species are subject to restriction in Japan. Furthermore, the tariff on most unworked timber is either zero or of a low order. As with commodities, duties tend to become higher as the degree of processing advances. The United Kingdom and the EEC have suspended duties on tropical hardwoods for two years from 1 January 1964; any permanent reduction or elimination of these duties would be made in the framework of the General Agreement on Tariffs and Trade.

In general, trade in *metal ores* and *non-metallic minerals* is free of quantitative restraints, while trade in crude minerals and ores (though not *metals*) is virtually free of tariff restraints as well.

Among the few quantitative restraints, the most significant for the developing countries are those on copper, lead and zinc. Japan restricts imports of lead and zinc in the interests of local producers. It also operates a support scheme for the local copper industry—and while this has stimulated a rapid expansion of domestic production, based in part on imported ores—it has not prevented a concurrent rise in imports of copper metal. Since October 1958, the United States has maintained import quotas on lead and zinc and their ores at a level of 80 per cent of the average rates of dutiable imports in the period 1953-1957 (see table 5A-3). These quotas have in general been fully taken up: for most of the countries involved, the United States is a major market.

Tariffs on the principal metal ores moving in international trade are confined largely to those on imports of the

ores of aluminium, copper and manganese (into the United States) and lead and zinc (into Italy and the United States) and are comparatively low. On the metals, however, tariff restraints are prevalent, though they too are generally low. Wrought metals as a rule attract higher import duties than do unwrought. Unwrought tin is subject to a tariff in only one of the major industrial countries (Japan), whereas wrought tin is dutiable in all, at rates ranging from 4 per cent in the Federal Republic of Germany to 35 per cent in the United States. Wrought copper is subject to duties ranging from 7 per cent in the United States to 20 per cent in Japan (where the tariff is linked with a minimum price scheme for domestic copper), but duties on unwrought copper are fewer and lower. For unwrought copper—as for unwrought tin—the common external tariff of the EEC has been set at zero.

Aluminium, lead and zinc are subject to duties in all major industrial countries, though the duty on aluminium in the United States is temporarily in suspense. The external tariffs of the EEC have been fixed at 10 per cent for aluminium, 5 per cent for lead and zinc.<sup>m</sup>

Trade policy in respect of the *fuels* is also strongly influenced by the position of domestic producers. In western Europe the vulnerability of local collieries has given rise to a system of licensing coal imports and taxing competitive petroleum products. In the United States, coal imports are dutiable (the rate being equivalent to about 17 per cent *ad valorem*) while petroleum imports, from lower-cost foreign fields, are subject to physical limitation.

Trade in coal is largely among the industrial countries. The developing countries are much more concerned with the markets for *petroleum*. These are generally free of quantitative restraints but, among the major industrial countries, France and Japan, as well as the United States, exercise official controls. Imports into France from outside the franc zone, other than those required for re-export after processing, are limited by quotas linked to the output in Gabon and the Sahara. As the volume of production from these areas has been rising more rapidly than French requirements in recent years, the growth of imports from other sources has been severely limited. In Japan, quantitative control is exercised over all petroleum products.

In the United States, imports of petroleum were brought under a voluntary system of control in 1957. This was replaced in 1959 by compulsory controls designed to stabilize imports as a proportion of total consumption. At the beginning of 1963 the basis of control was modified and imports are now related to domestic production: imports of petroleum (crude and products other than residual fuel oil) into the area east of the Rocky Mountains are limited, in each half-yearly period, to 12.2 per cent of the estimated output of crude petroleum and natural gas products in that area in the coming half year. As there is only an informal restriction on imports from Canada and Mexico, the limitation falls chiefly on other suppliers, notably Venezuela and the Middle East. Imports into the west coast region from sources other than Canada are licensed according to the difference between estimated demand and supplies, including overland imports from Canada. In the period 1958-1961, actual imports of crude petroleum into the United States as a whole averaged about 13 per cent of consumption.

Tariff restraints on crude petroleum are few and, where they exist, low; among the major industrial countries the

<sup>m</sup> Consideration is currently being given to the possibility of suspending the common external tariffs on lead and zinc when world prices—as reflected on the London market—have reached certain levels.

Table 5A-3. Lead and Zinc: United States Import Quotas Established 1 October 1958, Actual Imports and Total Exports by Countries with United States Quotas  
(Thousands of metric tons, metal content)

Item and country	Import quotas (annual equivalent)	United States			Total exports in 1962 of the countries with United States quotas
		In terms of quota	Actual imports, 1962		
			Total <sup>a</sup>		
			General	For consumption	
<b>Lead</b>					
Ores and concentrates					
Peru .....	29.3	29.2	29.7	29.1	61.0
South West Africa.....	27.0	27.0	30.7	27.0	110.9
Canada .....	24.4	24.4	25.2	28.8	54.0
Australia .....	18.3	18.3	24.1	18.7	75.9
Bolivia .....	9.1	6.9	7.5	6.8	16.0
All other .....	11.9	11.9	8.8	13.0	
TOTAL	120.0	117.7	126.0	121.4	
Metal					
Mexico .....	66.9	66.3	59.8	61.8	139.3
Australia .....	43.0	40.7	65.4	65.6	277.4
Canada .....	28.9	28.9	51.5	51.5	114.8
Yugoslavia .....	28.6	28.3	28.9	29.2	58.5
Peru .....	23.4	20.9	20.1	20.1	71.9
All other .....	11.0	5.8	7.6	5.7	
TOTAL	201.8	190.9	233.3	233.9	
<b>Zinc</b>					
Ores and concentrates					
Mexico .....	127.9	127.7	149.7	126.4	192.7
Canada .....	120.6	120.6	174.6	122.9	219.9
Peru .....	63.7	60.4	70.3	68.3	145.0
All other .....	32.4	32.4	29.4	33.8	
TOTAL	344.6	341.1	424.0	351.4	
Metal					
Canada .....	68.7	68.7	66.1	66.1	191.1
Belgium-Luxembourg ...	13.6	13.6	21.1	15.3	111.8
Mexico .....	11.5	11.2	11.2	11.2	31.4
Congo (Leopoldville) ...	9.9	9.9	9.9	9.9	...
Peru .....	6.8	6.8	6.9	6.9	37.9
Italy .....	6.5	0.5	0.9	0.9	2.2
All other .....	11.0	11.0	12.7	13.1	
TOTAL	128.0	121.7	129.8	123.4	

Source: United States Tariff Commission, *Lead and Zinc*, Report to the President No. Tea-IR-8-63 (Washington, D.C.); International Lead and Zinc Study Group, *Monthly Bulletin of Statistics*, December 1963 (New York).

<sup>a</sup> Including receipts of metal and ore as a result of barter against agricultural surpluses, stockpile purchases and other non-commercial transactions.

only duties are in the United States (2 to 5 per cent) and in Japan (11 per cent).<sup>a</sup> The external tariff of the Euro-

<sup>a</sup> Until recently, petroleum producers in the Federal Republic of Germany were protected by a high rate of duty on imported crude. The specific rate was DM 125 per ton or—allowing for drawbacks for various end-uses—an average of about DM 80 per ton; at 1962 unit value this

pean Economic Community has been fixed at zero. Tariffs on petroleum products, however, are widespread. Among the heavier fractions, duties tend to be highest in the Fed-

was well over 100 per cent. In January 1964, however, the tariff was abolished and the protection provided by means of a system of subsidies. The loss in revenue was made good by increases in excise taxes on petroleum products.

eral Republic of Germany and the United Kingdom, serving in part as protection for domestic coal as well as domestic refining. The European Economic Community's external tariffs on petroleum products have not been determined.<sup>o</sup> Apart from customs duties, many products—fuel oil

<sup>o</sup> In June 1962 the Commission of the European Economic Community advocated a liberal import régime for petroleum and its products. Its proposals involved a policy of which the "long-term objective [would be] to secure a flow of energy supplies at the lowest possible price, and to establish the essential pre-requisites for security of supply". See the High Commission of the European Coal and Steel Community, the Commission of the European Economic Community and the Commission of the European Atomic Energy

in some countries, motor spirit in almost all—are subject to excise taxes. Because of the inelastic nature of the demand, such taxes often reach very high rates. The incidence undoubtedly falls overwhelmingly on the consumer, but producers are unlikely to escape the effects entirely and where much of the supply is imported this would tend to inhibit trade.

Community, *Memorandum on Energy Policy*, August 1962. A special committee was appointed in May 1963 to examine the recommendations of the Commissions and to report again in April 1964. Discussions of related changes in the Paris Treaty are continuing within the European Coal and Steel Community.

*Appendix B follows overleaf*

## Appendix B. Supporting tables

Table 5B-1. Primary Commodities: Ratio of Net Imports to Apparent Consumption in Major Industrial Countries, Around 1950 and Around 1960<sup>a</sup>  
(Percentage)

Commodity <sup>b</sup>	United States		United Kingdom		Japan		Belgium-Luxembourg		France		Federal Republic of Germany		Italy		Netherlands		European Economic Community	
	A	B	A	B	A	B	A	B	A	B	A	B	A	B	A	B	A	B
Cattle <sup>c</sup>	2	3	13	14	0	0	4	0	0	0	6	10	5	9	3	2	2	4
Sheep <sup>c</sup>	0	0	3	2	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Hogs <sup>c</sup>	0	0	0	0	0	0	0	0	0	0	1	4	1	2	0	0	1	2
Beef and veal <sup>d</sup>	1	3	49	30	17	3	7	2	0	-2	2	4	8	16	8	-6	2	3
Mutton and lamb <sup>d</sup>	1	6	71	61	59	76	47	49	5	3	2	2	0	4	-33	-144	3	2
Pork <sup>d</sup>	0	0	7	3	0	1	1	-1	0	1	2	2	0	9	-1	-8	1	1
Butter	-1	-1	95	92	3	4	26	-5	6	-6	6	5	12	20	-155	-73	3	-2
Cheese	-2	1	79	55	25	23	68	64	-1	-5	13	24	-2	4	-88	-107	-1	1
Eggs	0	0	20	2	0	-1	0	-12	1	3	31	39	3	16	-90	-119	5	8
Fish <sup>e</sup>	8	12	9	9	-1	-3	37	46	6	9	23	13	32	36	-54	-63	12	10
Wheat <sup>f</sup>	-53	-72	67	63	53	63	42	32	3	-12	50	27	19	4	70	68	24	8
Rice	-38	-39	100	100	4	2	100	100	62	30	100	100	-34	-34	100	100	2	11
Barley	-6	-24	29	17	21	12	55	48	11	-14	25	31	18	56	53	50	25	16
Maize	-3	-6	100	100	61	73	100	100	52	-1	97	98	3	25	94	100	40	39
Rye	-1	-15	2	31	38	76	21	22	2	-2	10	-2	19	54	6	24	10	5
Oats	2	-2	4	3	-4	1	13	11	1	0	4	15	4	16	21	39	5	11
Oranges and tangerines	-5	-4	100	100	-2	-2	100	100	100	100	100	100	-50	-32	100	100	51	60
Other citrus fruits	-3	-9	100	100	0	3	100	100	100	100	100	100	-99	-128	100	100	-18	1
Apples	-1	-2	18	25	-1	-2	-2	10	0	2	10	21	-17	-35	-38	-25	-1	0
Grapes	-1	-3	98	98	0	0	-2	-3	0	0	12	23	-1	-2	-74	-23	0	0
Potatoes	-1	-1	7	5	0	-1	2	-1	0	-1	1	2	-1	-3	-14	-17	-1	-1
Sugar <sup>h</sup>	45	50	66	72	96	89	-4	-15	4	-5	39	7	8	3	33	19	23	6
Oil-seed cake	...	15	...	66	...	1	...	54	...	34	...	40	...	8	...	34	...	35
Lard <sup>i</sup>	-25	-26	92	94	12	36	-32	5	-5	-99	25	8	2	1	-36	...	8	...
Tobacco	-21	-21	100	100	2	1	81	89	35	37	65	83	-3	-10	100	100	43	56
Ground-nuts <sup>j</sup>	-11	-3	100	100	42	5	100	100	100	100	100	100	60	90	100	100	98	98
Soya beans <sup>k</sup>	-8	-26	100	100	32	72	100	100	100	100	100	100	94	99	100	100	100	100
Linseed <sup>k</sup>	-7	-24	69	100	83	95	84	50	83	74	61	90	65	67	64	84	76	72
Cotton-seed <sup>k</sup>	0	0	100	100	93	100	100	100	100	100	100	100	0	54	100	100	81	56
Rubber <sup>l</sup>	66	29	100	72	100	92	100	100	100	92	100	80	100	77	99	97	100	84
Wool <sup>m</sup>	17	10	38	32	74	87	94	93	42	35	41	68	29	47	58	47	43	49
Cotton	-48	-70	100	100	100	100	100	100	100	100	100	100	98	96	100	100	100	99
Iron ore <sup>n</sup>	11	33	57	66	73	83	77	82	2	3	59	75	33	67	100	100	38	50
Copper ore <sup>n</sup>	10	7	100	100	2	47	100	100	0	0	96	97	50	28	0	0	95	92
Bauxite <sup>k</sup>	65	85	100	100	100	100	100	100	-38	-12	99	100	40	45	100	100	...	36

Lead ore <sup>a</sup> .....	16	43	75	93	26	40	100	100	79	76	64	72	-14	-15	100	100	66	73
Zinc ore <sup>a</sup> .....	29	50	99	100	-23	12	100	100	83	90	22	39	-131	-77	100	100	54	61
Manganese ore <sup>k</sup> .....	96	95	100	100	63	66	100	100	100	100	100	100	100	100	100	100	100	100
Solid fuel <sup>p</sup> .....	-9	-11	-6	-3	3	12	5	19	23	21	-17	-10	86	88	26	22	3	6
Petroleum, crude .....	7	13	100	100	88	98	100	100	99	95	67	80	100	95	88	90	94	91
Petroleum products <sup>p</sup> .....	2	8	39	10	4	21	62	10	-33	-20	20	18	-10	-30	-41	-44	-13	-12
Soya-bean oil .....	-14	-24	54	25	0	-11	24	-11	22	-79	65	6	86	52	33	5	58	9
Cotton-seed oil .....	-5	-27	33	15	37	16	°	100	°	°	39	97	59	9	100	100	43	96
Ground-nut oil .....	-6	-1	5	30	-8	0	80	30	35	35	25	43	56	2	13	-13	38	30
Olive oil .....	88	96	100	100	100	100	100	100	74	96	100	100	0	14	100	100	7	18
Linseed oil .....	-3	-6	80	51	30	-1	-92	-28	28	24	86	96	30	79	19	-8	32	51
Coconut oil .....	14	28	34	27	2	0	-18	18	7	0	53	18	55	71	-34	-95	15	8
Palm kernel oil .....	59	100	-3	-7	°	-3	11	1	0	2	20	20	0	0	-11	-33	6	0
Copper, blister <sup>q</sup> .....	15	21	94	99	-64	21	83	86	100	100	32	81	99	99	100	100	83	91
Copper, refined <sup>r</sup> .....	9	-15	52	59	-24	16	0	0	84	86	-6	41	0	0	100	100	26	45
Aluminium <sup>q</sup> .....	13	4	85	90	-38	11	100	100	-3	-11	16	39	-1	21	100	100	11	26
Lead <sup>q</sup> .....	41	27	70	54	7	2	-59	-80	29	32	-34	17	5	35	82	78	-2	20
Zinc <sup>q</sup> .....	7	11	70	66	2	6	-135	-111	38	14	1	34	-9	3	-11	-34	-19	-1
Tin <sup>q</sup> .....	65	82	-27	-52	0	0	-646	217	100	100	93	95	100	100	-400	281	-56	54

Source: Bureau of General Economic Research and Policies of the United Nations Secretariat, based on United Nations, *Statistical Yearbook*, 1955 and 1962; *World Energy Supplies*, Statistical Papers, Series J, No. 16; Food and Agriculture Organization of the United Nations, *Trade Yearbook*, 1962; *Production Yearbook*, 1960 and 1962; *Yearbook of Fishery Statistics*, 1952-1953 and 1961; *Monthly Bulletin of Agricultural Economics and Statistics*, July/August 1963, April 1963, June 1962; Commonwealth Economic Committee, *Vegetable Oils and Oil-Seeds*, 1963, *Iron and Steel and Alloying Metals*, 1962 (London); International Rubber Study Group, *Rubber Statistical Bulletin* (London); International Lead and Zinc Study Group, *Monthly Bulletin of Statistics*; Overseas Geological Surveys, Mineral Resources Division, *Statistical Summary of the Mineral Industry*, 1948-1953, 1956-1961 (London); The British Bureau of Non-Ferrous Metals Statistics, *Bulletin* for August 1963 (London); United States Bureau of Mines, *World Petroleum Statistics* (Washington, D.C.); Metallgesellschaft Aktiengesellschaft, *Metal Statistics* (Frankfurt am Main); American Bureau of Metal Statistics; national trade statistics of respective countries.

<sup>a</sup> In most cases consumption has been measured as production + imports - exports, with due allowance for changes in stocks wherever possible. A minus sign indicates net exports. Column A indicates the average 1948-1952, column B 1958-1961, though in some instances the figures have had to be calculated over a shorter period.

<sup>b</sup> Arrayed in SITC order. The following commodities have been omitted because there is no significant production in any of the major importing countries:

bananas, coffee, cocoa, tea, pepper and other spices, copra, palm kernels, jute, ramie, agaves, abaca, tin ore, palm oil.

<sup>c</sup> Ratio of number of animals imported to number of animals slaughtered.

<sup>d</sup> Based on total production (i.e., slaughter), including the meat-equivalent of imported animals. Imports refer only to fresh, frozen and chilled meat.

<sup>e</sup> Including crustaceans and molluscs; based on total catch.

<sup>f</sup> Including wheat flour in wheat-equivalent.

<sup>g</sup> Excluding grapefruit in France and Italy.

<sup>h</sup> Including refined sugar in terms of raw sugar equivalent.

<sup>i</sup> Trade figures include shortening; no data are available for Luxembourg.

<sup>j</sup> Measured in the shell.

<sup>k</sup> Measured gross.

<sup>l</sup> Natural and synthetic.

<sup>m</sup> Greasy basis.

<sup>n</sup> Metal content.

<sup>o</sup> Imports and consumption negligible.

<sup>p</sup> Measured in coal equivalent.

<sup>q</sup> Consumption represents production of primary metal or the output of primary smelters (excluding the output of remelted metal and secondary smelters, wherever possible) plus net imports of unwrought or crude metal. Trade includes the content of alloys in some cases, particularly in Italy.

<sup>r</sup> Including consumption of metal refined from scrap.

Table 5B-2. Primary Commodities: Imports of Industrial Countries from Developing Countries Classified According to Nature of the Competition They Face,<sup>a</sup> 1962

Commodity <sup>b</sup>	Value of imports <sup>c</sup> (millions of dollars)	Exports from the developing countries competing with <sup>d</sup>			
		No close substitute	A close industrial substitute	A close natural substitute	Production of the industrial countries
Petroleum, crude and products....	6,760.5				6,761
Coffee .....	1,716.3	1,716			
Copper, ore and metal.....	973.4				973
Sugar .....	885.6				886
Cotton .....	870.6		600		271
Rubber .....	763.9		764		
Iron ore, iron and steel scrap....	719.2				719
Cocoa .....	440.2	440			
Tea and maté.....	439.5	440			
Wood, rough .....	391.8				392
Bananas .....	359.9	360			
Wool .....	294.6		195		100
Wine .....	272.5				273
Tin, ore and metal.....	270.9	271			
Ground-nuts and oil.....	261.1			200	61
Oil-seed cake and meal.....	257.1			157	100
Tobacco .....	238.2				238
Meat, fresh, chilled.....	237.7				238
Bauxite and aluminium.....	215.5				216
Copra and coconut oil.....	212.6			213	
Citrus fruit .....	189.0				189
Maize .....	179.5			100	80
Hides and skins.....	158.1				158
Jute and allied fibres.....	157.4	57	50	50	
Wheat and wheat flour.....	151.0				151
Fish .....	140.9				141
Phosphates, natural .....	121.6				122
Fish meal .....	117.0				117
Manganese ore .....	112.4	112			
Other non-ferrous ores and metals	108.0				108
Agaves .....	106.6	37	35	35	
Palm kernels and oil.....	91.0			91	
Edible nuts .....	88.4				88
Lumber, non-coniferous .....	87.9				88
Palm oil .....	74.3			74	
Lead ore and metal.....	69.1				69
Crude animal materials, other....	67.2		30		37
Zinc ore and metal.....	62.7				63
Live animals .....	62.6				63
Rice .....	60.9				61
Brans and pollard.....	57.1			20	47
Fur skins, undressed.....	55.1		20	15	20
Fresh vegetables, other.....	52.7				53
Barley .....	51.6			20	32
Tomatoes, fresh .....	51.3				51
Potatoes, fresh .....	51.0				51
Natural gums and resins.....	50.3	30	20		
Linseed and oil.....	48.8		20		29
Materials of vegetable origin, other	48.0	20			28
Cereals, other .....	40.9				41
Silver and platinum ore and metal	39.4				39
Beans and peas, fresh.....	39.3				39
Castor oil-seed and oil.....	38.0	18		20	
Lumber, coniferous .....	37.2				37
Oil-seeds, other .....	35.7			20	18

Table 5B-2 (continued)

Commodity <sup>b</sup>	Value of imports <sup>a</sup> (millions of dollars)	Exports from the developing countries competing with <sup>a</sup>			
		No close substitute	A close industrial substitute	A close natural substitute	Production of the industrial countries
Quartz, mica, feldspar .....	35.2				35
Olive oil .....	35.0				35
Pepper and pimiento .....	34.0	34			
Spices, other .....	31.3	31			
Cotton-seed and oil .....	31.0			18	13
Fresh fruit, other .....	29.3				29
Abaca .....	28.2	10	10	8	
Non-ferrous metal scrap .....	27.9				28
Nickel ore and metal .....	27.2				27
Vegetable oils, fixed, other .....	26.0			16	10
Apples, fresh .....	24.9				25
Fibres, vegetable, other .....	24.2	14	10		
Diamonds, industrial .....	23.5	17	7		
Sulphur .....	23.0				23
Sodium nitrate, natural .....	22.3		22		
Oats .....	21.9				22
Plants, pharmaceutical .....	21.6	12			10
Dried fruit .....	18.7				19
Salt .....	17.9				18
Oils, marine .....	17.7			10	8
Organic oils, fats and waxes processed .....	17.0		10		7
Asbestos .....	16.1				16
Vegetables products, other .....	15.7				16
Eggs .....	13.7				14
Gas .....	13.2			5	8
Iron pyrites .....	11.5			5	6
Refractory minerals .....	10.3				10
Vegetable material for plaiting .....	10.0				10
Soya beans and oil .....	10.0				10
Uranium and thorium ore .....	8.7				9
Minerals, crude, other .....	8.5				9
Coal, coke .....	8.5			4	5
Butter .....	7.8			4	4
Stone .....	6.5				7
Silk .....	5.4		4		1
Grapes, fresh .....	5.2				5
Feed-stuffs, prepared, other .....	5.1			2	3
Cork .....	4.8				5
Seeds for planting .....	4.8				5
Textile fabric wastes .....	4.5				5
Vegetable dyeing and tanning materials .....	4.1		2		2
Asphalt and bitumen, natural .....	3.2				3
Meat, dried, smoked .....	3.2				3
Ferro-manganese .....	3.0				3
Wood pulp .....	3.0				3
Abrasive, natural .....	2.7		1		2
Ramie .....	2.4		1	1	
Hemp .....	2.4		1	1	1
Potassic salts, natural .....	1.9		1		1
Flax .....	1.8			1	1
Fuel wood .....	1.8			1	1

Table 5B-2 (continued)

Commodity <sup>b</sup>	Value of imports <sup>c</sup> (millions of dollars)	Exports from the developing countries competing with <sup>d</sup>			
		No close substitute	A close industrial substitute	A close natural substitute	Production of the industrial countries
Cheese .....	1.7				2
Sunflower-seed oil .....	1.6			1	1
Other items .....	10.1		3	3	4
TOTAL OF ABOVE	20,234.1	3,615	1,804	1,093	13,722
Percentage distribution .....	100	18	9	5	68
TOTAL, excluding petroleum	13,473.6	3,615	1,804	1,093	6,961
Percentage distribution .....	100	27	13	8	52

Source: Bureau of General Economic Research and Policies of the United Nations Secretariat, based on national trade statistics.

<sup>a</sup> Industrial countries comprise North America, western Europe and Japan; developing countries comprise Latin America, Africa (other than South Africa) and Asia (other than Japan, Turkey and the centrally planned economies).

<sup>b</sup> Listed in descending order of value of imports into the industrial countries from the developing countries in 1962. Residual categories, such as "Other non-ferrous ores and metals", "Crude animal materials, other", and so on, are defined in "Commodity notes" to table 5B-3.

<sup>c</sup> Measured c.i.f. except in the case of Canada and the United States.

<sup>d</sup> The value of imports has been distributed among the four categories in accordance with more or less arbitrary judgements of the nature of the competition faced by the commodity in question in its various major end uses. Where competition comes only from one source, the total value of the imports has been listed under the appropriate head; in other cases the sum has been divided among the columns from which the competition derives. Competition from supplies drawn by the industrial countries from the centrally planned countries is not considered in this table; for some items this is the principal source of competitive supplies.

Table 5B-3. Primary Commodities: Imports into Industrial Countries,<sup>a</sup> 1962

SITC no.	Commodity	Value of imports from <sup>b</sup> (millions of dollars)			Imports from primary exporting countries <sup>c</sup>		Imports from developing countries <sup>d</sup>		
		All sources	Primary exporting countries <sup>e</sup>	Developing countries <sup>d</sup>	As percentage of imports of each commodity	Individual item as percentage of all primary commodity imports from the primary exporting countries	As percentage of imports of each commodity	As percentage of all primary commodity imports from developing countries	
								Individual item	Cumulated
331	Petroleum, crude .....	5,736.0	5,316.8	5,316.8	92.7	22.8	92.7	26.3	26.3
071.1	Coffee .....	1,737.5	1,717.1	1,716.3	98.8	7.4	98.8	8.5	34.8
332	Petroleum, products ..	3,112.8	1,455.3	1,443.7	46.8	6.2	46.4	7.1	41.9
682	Copper (1) .....	1,703.5	932.7	899.4	54.8	4.0	52.8	4.4	46.3
061	Sugar (2) .....	1,139.4	1,001.8	885.6	87.9	4.3	77.7	4.4	50.7
263	Cotton (3) .....	1,424.2	871.2	870.6	61.2	3.7	61.1	4.3	55.0
231	Rubber (4) .....	1,011.5	764.1	763.9	75.5	3.3	75.5	3.8	58.8
281	Iron ore (5) .....	1,414.7	709.9	695.1	50.2	3.0	49.1	3.4	62.2
072	Cocoa (6) .....	516.2	443.7	440.2	86.0	1.9	85.3	2.2	64.4
074	Tea and maté .....	466.1	439.6	439.5	94.3	1.9	94.3	2.2	66.6
242	Wood, rough (7) .....	795.0	399.0	391.8	50.2	1.7	49.3	1.9	68.5
051.3	Bananas .....	375.8	359.9	359.9	95.8	1.5	95.8	1.8	70.3
262	Wool (8) .....	1,972.5	1,513.2	294.6	76.7	6.5	14.9	1.5	71.8
112.1	Wine .....	558.8	279.6	272.5	50.0	1.2	48.8	1.0	73.1
081.3	Oil-seed cake and meal	479.3	264.1	257.1	55.1	1.1	53.6	1.3	74.4
121	Tobacco .....	794.1	241.2	238.2	30.4	1.0	30.0	1.2	75.6
011	Meat, fresh, chilled, frozen .....	1,267.7	690.8	237.7	54.5	3.0	18.8	1.2	76.8
687	Tin (1) .....	264.5	198.5	198.5	75.0	0.8	75.0	1.0	77.8
221.1	Ground-nuts .....	213.8	209.6	198.3	98.0	0.9	92.7	1.0	78.8
283.3	Bauxite (9) .....	221.8	192.7	192.6	86.9	0.8	86.8	1.0	79.8



Table 5B-3 (continued)

SITC no.	Commodity	Value of imports from <sup>b</sup> (millions of dollars)			Imports from primary exporting countries <sup>c</sup>		Imports from developing countries <sup>d</sup>		
		All sources	Primary exporting countries <sup>c</sup>	Developing countries <sup>d</sup>	As percentage of imports of each commodity	Individual item as percentage of all primary commodity imports from the primary exporting countries	As percentage of imports of each commodity	As percentage of all primary commodity imports from developing countries	
								Individual item	Cumulated
044	Maize .....	879.8	290.7	179.5	33.0	1.2	20.4	0.9	80.7
051.1	Oranges and tangerines	418.3	210.4	168.7	50.3	0.9	40.3	0.8	81.5
221.2	Copra .....	167.7	167.3	166.6	99.7	0.7	99.3	0.8	82.3
211	Hides and skins .....	521.8	285.6	158.1	54.7	1.2	30.3	0.8	83.1
264	Jute .....	161.4	157.4	157.4	97.5	0.7	97.5	0.8	83.9
041	Wheat .....	1,047.1	253.9	148.8	24.2	1.1	14.2	0.7	84.6
031	Fish (10) .....	623.4	175.8	140.9	28.2	0.8	22.6	0.7	85.3
271.3	Phosphates, natural ..	188.5	121.6	121.6	64.5	0.5	64.5	0.6	85.9
081.4	Fish meal (11) .....	180.0	140.0	117.0	77.8	0.6	65.0	0.6	86.5
283.7	Manganese ore .....	151.7	134.8	112.4	88.9	0.6	74.1	0.6	87.1
265.4	Agaves (12) .....	115.1	106.8	106.6	92.7	0.5	92.6	0.5	87.6
051.7	Edible nuts .....	262.4	88.5	88.4	33.7	0.4	33.7	0.4	88.0
243.3	Lumber, non-coniferous	206.7	88.9	87.9	43.0	0.4	42.5	0.4	88.4
221.3	Palm kernels .....	83.2	82.0	82.0	98.5	0.4	98.5	0.4	88.8
422.2	Palm oil .....	88.5	74.3	74.3	84.0	0.3	84.0	0.4	89.2
283.1	Copper ore (9) .....	128.0	95.6	74.0	74.7	0.4	57.8	0.4	89.6
283.6	Tin ore (9) .....	84.7	73.7	72.4	87.0	0.3	85.5	0.4	90.0
283.9	Non-ferrous ores, other (13) .....	176.6	106.4	67.7	60.3	0.5	38.3	0.3	90.3
291	Crude animal materials, other (14) .....	275.8	97.3	67.2	35.3	0.4	24.4	0.3	90.6
421.4	Ground-nut oil .....	67.5	63.4	62.8	93.8	0.3	93.0	0.3	90.9
001	Live animals .....	556.9	63.6	62.6	11.4	0.3	11.2	0.3	91.2
042	Rice .....	117.6	62.4	60.9	53.1	0.3	51.8	0.3	91.5
081.2	Brans and pollard (15)	103.8	68.3	57.1	65.8	0.3	55.0	0.3	91.8
212	Fur skins, undressed..	309.8	95.8	55.1	30.9	0.4	17.8	0.3	92.1
054.5	Fresh vegetables, other (16) .....	309.5	54.5	52.7	17.6	0.2	17.0	0.3	92.4
043	Barley .....	308.2	80.2	51.6	26.0	0.3	16.7	0.3	92.7
054.4	Tomatoes, fresh .....	177.5	51.3	51.3	28.9	0.2	28.9	0.3	93.0
054.1	Potatoes, fresh .....	193.8	51.0	51.0	26.3	0.2	26.3	0.3	93.3
292.2	Natural gums and resins .....	62.8	50.5	50.3	80.5	0.2	80.1	0.2	93.5
292.9	Materials of vegetable origin, other (17)...	79.3	48.8	48.0	61.5	0.2	60.6	0.2	93.7
422.3	Coconut oil .....	58.2	46.2	46.0	79.4	0.2	78.9	0.2	93.9
283.5	Zinc ore (9) .....	97.4	59.7	44.7	61.2	0.3	45.9	0.2	94.1
045.9	Cereals, other (18)...	178.3	52.4	40.9	29.4	0.2	22.9	0.2	94.3
422.1	Linseed oil .....	52.1	40.8	40.8	78.3	0.2	78.3	0.2	94.5
685	Lead (1) .....	149.4	77.4	40.5	51.8	0.3	27.1	0.2	94.7
689	Non-ferrous metals, other (19) .....	155.8	42.5	40.3	27.3	0.2	25.9	0.2	94.9
054.2	Beans and peas, fresh.	106.6	41.9	39.3	39.3	0.2	36.9	0.2	95.1
243.2	Lumber, coniferous ...	1,216.7	37.4	37.2	3.1	0.2	3.1	0.2	95.3
221.8	Oil-seeds, other (20).	89.6	36.7	35.7	40.9	0.2	39.9	0.2	95.5
681	Silver and platinum (21) .....	250.4	37.1	35.5	14.8	0.2	14.2	0.2	95.7
276.5	Quartz, mica, felspar (22) .....	61.0	37.7	35.2	61.9	0.2	57.8	0.2	95.9
421.5	Olive oil .....	100.8	35.0	35.0	35.1	0.2	34.8	0.2	96.1
075.1	Pepper and pimiento...	39.5	34.0	34.0	86.1	0.1	86.1	0.2	96.3
075.2	Spices, other (23)....	40.2	31.4	31.3	78.1	0.1	76.3	0.2	96.5

Table 5B-3 (continued)

SITC no.	Commodity	Value of imports from <sup>b</sup> (millions of dollars)			Imports from primary exporting countries <sup>c</sup>		Imports from developing countries <sup>d</sup>		
		All sources	Primary exporting countries <sup>c</sup>	Developing countries <sup>d</sup>	As percentage of imports of each commodity	Individual item as percentage of all primary commodity imports from the primary exporting countries	As percentage of imports of each commodity	As percentage of all primary commodity imports from developing countries	
								Individual item	Cumulated
221.6	Cotton-seed .....	30.5	29.5	29.4	97.0	0.1	96.6	0.1	96.6
051.9	Fresh fruit, other (24)	193.2	47.1	29.3	24.4	0.2	15.2	0.1	96.7
283.4	Lead ore (9) .....	67.1	46.4	28.6	69.2	0.2	42.7	0.1	96.8
265.5	Abaca .....	28.9	28.2	28.2	97.6	0.1	97.6	0.1	96.9
284	Non-ferrous metal scrap .....	217.0	36.7	27.9	16.9	0.2	12.9	0.1	97.0
283.2	Nickel ore (9) .....	140.7	27.1	27.1	19.3	0.1	19.2	0.1	97.1
422.9	Vegetable oils, fixed, other (25) .....	47.0	27.0	26.0	57.5	0.1	55.3	0.1	97.2
051.4	Apples, fresh .....	221.8	82.9	24.9	37.4	0.4	11.2	0.1	97.3
265.8	Fibres, vegetable, other (26) .....	28.8	24.2	24.2	83.9	0.1	83.9	0.1	97.4
282	Iron and steel scrap ..	412.9	29.5	24.1	7.2	0.1	5.8	0.1	97.5
275.1	Diamonds, industrial .	92.7	33.2	23.5	35.8	0.1	25.3	0.1	97.6
274.1	Sulphur .....	65.2	23.0	23.0	35.3	0.1	35.3	0.1	97.7
684	Aluminium (1) .....	646.6	22.9	22.9	35.3	0.1	35.3	0.1	97.8
271.2	Sodium nitrate, natural	22.6	22.3	22.3	98.9	0.1	98.9	0.1	97.9
045.2	Oats .....	80.3	37.0	21.9	46.1	0.2	27.3	0.1	98.0
292.4	Plants, pharmaceutical (27) .....	36.5	22.7	21.6	62.2	0.1	59.3	0.1	98.1
422.5	Castor oil .....	25.7	20.5	20.5	80.0	0.1	80.0	0.1	98.2
051.2	Citrus fruit, other (28)	81.7	25.3	20.3	31.0	0.1	24.9	0.1	98.3
052	Dried fruit .....	162.4	44.5	18.7	27.4	0.2	11.5	0.1	98.4
686	Zinc (1) .....	140.5	27.0	18.0	19.2	0.1	12.8	0.1	98.5
276.3	Salt .....	50.5	18.3	17.9	36.2	0.1	35.4	0.1	98.6
411.1	Oils, marine .....	91.4	26.2	17.7	28.7	0.1	19.4	0.1	98.7
221.7	Castor oil-seed .....	18.3	18.1	17.5	98.7	0.1	95.4	0.1	98.8
431	Organic oils, fats and waxes, processed (29)	60.3	17.6	17.0	29.1	0.1	28.2	0.1	98.9
276.4	Asbestos .....	171.6	48.4	16.1	28.2	0.2	9.4	0.1	99.0
054.8	Vegetable products, other (30) .....	53.0	16.0	15.7	30.1	0.1	29.7	0.1	99.1
025	Eggs .....	228.4	25.1	13.7	11.0	0.1	6.0	0.1	99.2
341	Gas .....	130.0	13.2	13.2	10.1	0.1	10.1	0.1	99.3
274.2	Iron pyrites .....	44.8	11.5	11.5	25.7	0.1	25.7	0.1	99.4
276.2	Refractory minerals (31) .....	119.5	15.7	10.3	13.2	0.1	8.6	0.1	99.5
292.3	Vegetable material for plaiting .....	17.9	10.0	10.0	56.1	.	56.1	.	
221.4	Soya beans .....	440.7	9.3	9.3	2.1	.	2.1	.	
422.4	Palm kernel oil .....	16.5	9.0	9.0	54.5	.	54.5	.	
286	Uranium and thorium ores (9) .....	262.4	112.1	8.7	42.7	0.5	3.3	.	
276.9	Minerals, crude, other (32) .....	64.5	12.5	8.5	19.5	0.1	13.2	.	
321	Coal, coke .....	1,559.8	55.3	8.5	3.5	0.2	0.5	.	
221.5	Linseed .....	64.5	8.0	8.0	12.4	.	12.3	.	
023	Butter .....	394.6	198.8	7.8	50.4	0.9	2.0	.	
273	Stone .....	127.7	8.1	6.5	6.3	.	5.1	.	
261	Silk .....	79.1	5.4	5.4	6.9	.	6.9	.	
051.5	Grapes, fresh .....	99.2	19.3	5.2	19.5	0.1	5.2	.	

Table 5B-3 (continued)

SITC no.	Commodity	Value of imports from <sup>b</sup> (millions of dollars)			Imports from primary exporting countries <sup>c</sup>		Imports from developing countries <sup>d</sup>		
		All sources	Primary exporting countries <sup>c</sup>	Developing countries <sup>d</sup>	As percentage of imports of each commodity	Individual item as percentage of all primary commodity imports from the primary exporting countries	As percentage of imports of each commodity	As percentage of all primary commodity imports from developing countries	
								Individual item	Cumulated
081.9	Feed-stuffs, prepared, other (33) .....	67.1	6.1	5.1	9.1	.	7.6	.	.
244	Cork .....	26.4	4.8	4.8	18.1	.	18.1	.	.
292.5	Seeds for planting...	84.1	9.3	4.8	11.0	.	5.7	.	.
267	Textile fabric wastes.	87.6	6.3	4.5	7.2	.	5.1	.	.
292.1	Vegetable dyeing and tanning materials ..	7.1	5.1	4.1	71.6	.	56.9	.	.
285	Silver and platinum ores (9) .....	69.6	30.4	3.9	43.7	0.1	5.6	.	.
276.1	Asphalt and bitumen, natural .....	7.8	3.2	3.2	41.5	.	41.5	.	.
012	Meat, dried, smoked..	306.0	4.0	3.2	1.3	.	1.1	.	.
671.4	Ferro-manganese ....	55.0	10.3	3.0	18.8	.	5.5	.	.
251	Wood-pulp (34) ....	1,128.1	21.2	3.0	1.9	0.1	0.3	.	.
275.2	Abrasives, natural ...	45.8	14.0	2.7	30.5	0.1	5.8	.	.
265.3	Ramie (35) .....	2.8	2.4	2.4	84.9	.	84.9	.	.
265.2	Hemp (35) .....	12.7	2.4	2.4	18.8	.	18.8	.	.
046	Wheat flour .....	71.6	7.3	2.2	10.2	.	10.1	.	.
271.4	Potassic salts, natural	29.3	1.9	1.9	6.5	.	6.5	.	.
265.1	Flax (35) .....	68.3	1.8	1.8	2.7	.	2.6	.	.
241	Fuel wood (36) .....	22.1	1.8	1.8	8.1	.	7.9	.	.
024	Cheese .....	309.8	68.1	1.7	22.0	0.3	0.5	.	.
421.3	Cotton-seed oil .....	24.8	1.6	1.6	6.4	.	6.4	.	.
421.6	Sunflower-seed oil ...	14.9	1.6	1.6	10.6	.	10.5	.	.
271.1	Crude organic fertilizer	3.4	1.5	1.5	43.9	.	43.5	.	.
243.1	Railway sleepers, wooden .....	19.2	3.8	1.2	20.0	.	6.3	.	.
292.6	Bulbs and live plants	118.6	1.7	1.2	1.4	.	1.0	.	.
081.1	Hay and fodder .....	25.1	2.1	1.1	8.4	.	4.6	.	.
045.1	Rye .....	58.9	1.2	1.1	2.0	.	1.9	.	.
276.6	Slag, dross, ash .....	17.5	1.0	1.0	5.9	.	5.8	.	.
266	Fibres, synthetic and regenerated .....	176.7	1.0	.8	0.5	.	0.4	.	.
054.6	Vegetables, frozen (37)	28.2	1.0	.7	3.5	.	2.6	.	.
421.2	Soya-bean oil .....	27.6	.7	.7	2.5	.	2.5	.	.
047	Non-wheat flour .....	8.7	1.5	.5	17.7	.	5.6	.	.
292.7	Cut flowers and foliage	62.0	.7	.4	1.1	.	0.6	.	.
411.3	Animal oils and fats, inedible (38) .....	87.6	10.0	.3	11.4	.	0.4	.	.
221.9	Oil-seed meal and flour	.9	.3	.2	28.7	.	27.3	.	.
091.3	Lard, edible (38) ....	66.1	.2	.1	0.4	.	0.2	.	.
683	Nickel (1) .....	329.7	1.8	.1	0.5	.	—	.	.
091.4	Margarine .....	6.0	.6	—	10.4	.	—	.	.
022.3	Milk .....	7.1	—	—	0.3	—	—	.	.
TOTAL imports of primary commodities <sup>e</sup>		46,520.2	23,683.0	20,312.4	51.1	100.0	43.8	100.0	100.0

Source: Bureau of General Economic Research and Policies of the United Nations Secretariat, based on data compiled by the Statistical Office of the United Nations.

<sup>a</sup> Belgium-Luxembourg, Canada, Denmark, France, Federal Republic of Germany, Iceland, Ireland, Italy, Japan, Netherlands, Norway, Portugal, Sweden, Switzerland, Turkey,

United Kingdom, United States, plus Austria and Finland for 3-digit SITC items.

<sup>b</sup> Measured f.o.b. for Canada and the United States, and c.i.f. for all other importing countries.

(foot-notes continued on page 122)

(foot-notes to table 5B-3 (continued))

<sup>c</sup> Latin America, Caribbean islands, Africa, West Asia (other than Turkey), southern and south-eastern Asia, Oceania.

<sup>d</sup> Primary exporting countries less Australia, New Zealand and South Africa.

<sup>e</sup> Including some minor items not shown separately.

*Commodity notes*

1. Including alloys, almost entirely unwrought in the case of imports from the primary exporting countries.
2. Chiefly raw, but including refined, and also molasses and honey.
3. Chiefly raw, but including linters, waste and carded.
4. Chiefly natural, but including synthetic, reclaimed and scrap.
5. Including concentrates and roasted iron pyrites.
6. Chiefly beans, but including butter and powder.
7. Chiefly logs, but also pulp-wood, pit props and piling.
8. Including other animal hair, chiefly greasy but also degreased, tops, carded and waste.
9. And concentrates.
10. Fresh or simply preserved.
11. Including meat meal, for feed-stuffs.
12. Chiefly sisal, including waste.
13. Including chromium and tungsten ores.
14. Including bones, ivory, bristles, sponges.
15. And other cereal by-products.
16. Other than potatoes, brans, peas, lentils, tomatoes.
17. Including pectin and other saps, kapok and other padding material, broom fibres and miscellaneous vegetable material.

18. Other than wheat, rice, barley, maize.
19. Other than silver, the platinum metals, copper, nickel, aluminium, lead, zinc, tin, uranium, thorium.
20. Other than ground-nuts, copra, palm kernels, soya beans, linseed, cotton-seed, castor oil-seed.
21. And other platinum metals, largely unworked; almost entirely silver from the primary exporting countries.
22. Including fluorspar, cryolite and chiolite.
23. Other than pepper and pimiento.
24. Other than citrus fruit, bananas, grapes and apples.
25. Other than linseed, palm, coconut, palm kernel, castor.
26. Other than cotton, jute, flax, hemp, ramie, agaves and abaca.
27. Including seeds and flowers used in perfumes and insecticides.
28. Other than oranges, tangerines, mandarins, clementines.
29. Mostly animal and vegetable waxes in the case of imports from the primary exporting countries.
30. Including various roots and tubers, hops and other items for food.
31. Clay, graphite, dolomite, magnesite.
32. Including chalk, talc, amber, various natural sulphates, sulphides, borates and carbonates.
33. Including food wastes, husks, shells, lees and forage.
34. Including waste paper.
35. Including tow, noils and waste.
36. Including charcoal.
37. Or otherwise temporarily preserved.
38. Rendered lard is classified under 091.3, lard stearin and lard oil under 411.3.

Table 5B-4. Primary Commodities: Relative Size of World Market and Price Differentials on Major National Markets

Commodity and item	Ratio of world trade to world production, average 1959-1961 (percentage)	Average in cents per kilogramme <sup>a</sup>						Range	
		France	Federal Republic of Germany	Japan	United Kingdom	United States	Average export unit value	Cents per kilogramme	As percentage of export unit value
							1961 1962		
Wheat .....	18						6.3 6.5		
Support price 1961.....		8.2	10.4	11.1	7.4	6.7		4.4	70
Import unit value 1962.....		11.2	7.8	7.1	7.3	(6.1)		4.1	63
Maize .....	6						4.9 5.1		
Import unit value 1962.....		5.8	5.7	5.8	5.6	(4.4)		0.2	4
Barley .....	15						4.7 4.7		
Support price 1961.....		6.5	10.1	11.5	7.6 <sup>b</sup>	4.5		7.0	149
Import unit value 1962.....		6.7	6.6	<sup>c</sup>	6.9	(6.3)		0.3	6
Rice .....	4						10.8 11.3		
Support price 1961 <sup>d</sup> .....		<sup>e</sup>	<sup>e</sup>	20.4	<sup>e</sup>	11.3			
Wholesale price 1961 <sup>f</sup> .....		24.6	14.8	23.6	17.9	20.5		9.8	91
Import unit value 1962.....		17.9	13.3	13.4	14.4	(12.0)		4.6	41
Sugar .....	41						10.0 10.9		
Support price 1961 <sup>g</sup> .....		9.2	11.8	<sup>e</sup>	12.7	10.1		3.5	35
Wholesale price 1961 <sup>h</sup> .....		17.9	22.0	20.6	12.2	19.1		9.8	98
Import unit value 1962.....		17.1	7.2	7.2	7.3 <sup>i</sup>	(12.2)		9.9	91
Tobacco .....	24						124.7 126.0		
Support price 1961 <sup>j</sup> .....		<sup>e</sup>	<sup>e</sup>	119.0	<sup>e</sup>	141.0			
Import unit value 1962.....		97.6	128.3	184.3	173.5	(136.0)		86.7	69
Beef and veal.....	4						56.4 53.5		
Support price 1961 <sup>k</sup> .....		76.3	97.2	<sup>e</sup>	92.3	<sup>e</sup>			
Wholesale price 1961 <sup>l</sup> .....		84.7	112.1	...	68.2	90.7		43.9	78
Oranges .....	17						11.9 11.4		
Wholesale price 1961 <sup>m</sup> .....		16.0	16.1	...	20.1	22.2		6.2	52
Import unit value 1962.....		16.2	15.6	<sup>e</sup>	16.3	<sup>e</sup>		0.7	1

Table 5B-4 (continued)

Commodity and item	Ratio of world trade to world production, average 1959-1961 (percentage)	Average in cents per kilogramme <sup>a</sup>						Range	
		France	Federal Republic of Germany	Japan	United Kingdom	United States	Average export unit value	Cents per kilogramme	As percentage of export unit value
							1961 1962		
Bananas .....	23						8.5 8.7		
Import unit value 1962.....		17.0	12.1	15.2	17.3	(4.9)		5.2	60
Cocoa .....	84						48.3 46.1		
Import unit value 1962.....		46.6	50.3	49.2	47.1	(45.3)		3.7	8
Coffee .....	74						68.1 62.0		
Import unit value 1962, robusta <sup>n</sup>		67.1	50.1	40.3	43.8	(47.6)		26.8	43
Arabica, mild <sup>o</sup> .....		91.9	94.9	93.3	85.4	(87.1)		9.5	15
Tea .....	69						107.2 118.6		
Import unit value 1962.....		160.5	144.6	117.4	127.9	(102.5)		43.1	36
Butter .....	18						71.6 75.8		
Wholesale price 1961 <sup>p</sup> .....		156.5	151.4	184.2	70.6	133.0		113.6	159
Import unit value 1962.....		85.4	111.3	100.4	79.7	(102.8) <sup>c</sup>		31.6	42
Soya beans <sup>q</sup> .....	41						9.5 9.3		
Import unit value 1962.....		10.2	10.0	10.3	10.1	e		0.3	3
Ground-nuts <sup>q</sup> .....	17						16.7 16.8		
Import unit value 1962.....		20.5	18.5	22.2	18.5	e		3.7	22
Olive oil .....	15						53.4 57.4		
Import unit value 1962.....		58.5	70.2	68.2	65.5	(59.4)		11.7	20
Copra <sup>q</sup> .....	65						14.6 13.4		
Import unit value 1962.....		16.5	16.3	15.6	16.2	(14.3)		0.9	7
Palm kernels <sup>q</sup> .....	71						13.5 12.1		
Import unit value 1962.....		13.0	12.9	11.9	13.3	e		1.4	12
Palm oil .....	52						20.6 20.6		
Import unit value 1962.....		24.7	21.7	21.1	21.4	(20.3)		3.6	17
Cotton .....	38						63.5 65.6		
Import unit value 1962.....		65.0	65.8	62.6	65.5	(77.3) <sup>r</sup>		3.2	5
Wool, greasy .....	79						114.1 116.1		
Import unit value 1962.....		117.1	123.8	138.5	119.7	108.4 <sup>s</sup>		21.4	18
Jute .....	33						26.6 22.5		
Import unit value 1962.....		23.6	27.0	18.9	28.0	(17.3) <sup>t</sup>		9.1	40
Sisal .....	80						19.8 19.3		
Import unit value 1962.....		23.1	22.3	22.1	24.2	(17.1)		2.1	11
Natural rubber .....	97						54.0 53.2		
Import unit value 1962.....		54.5	54.0	52.9	60.3	(53.8)		7.4	14
Aluminium .....	28						49.4 47.4		
Wholesale price 1961 <sup>u</sup> .....		49.0	54.0	59.9	51.3	56.1		10.9	22
Import unit value 1962.....		45.7	50.4	49.7	50.1	(46.1)		4.7	10
Copper .....	72						59.8 61.2		
Electrolytic, wholesale price 1961 <sup>v</sup> .....		85.2	66.3	78.7	63.3	65.9		21.9	37
Import unit value 1962.....		65.6	63.0	66.4	64.1	(66.2) <sup>w</sup>		3.4	6
Lead .....	41						19.8 18.0		
Wholesale price 1961 <sup>x</sup> .....		25.2	17.8	27.5	17.7	24.0		9.8	49
Import unit value 1962.....		16.7	17.3	17.0	15.3	(17.8) <sup>y</sup>		2.0	11
Zinc .....	29						24.0 22.5		
Wholesale price 1961 <sup>z</sup> .....		31.0	21.6	32.1	21.4	25.4		10.7	45
Import unit value 1962.....		20.3	19.8	19.6	19.8	(23.1)		0.7	3
Tin .....	82						236.0 238.4		
Wholesale price 1961 <sup>aa</sup> .....		337.8	255.6	261.4	244.7	249.8		93.1	39
Import unit value 1962.....		259.0	241.9	254.7	249.0	(245.1)		17.1	7

Source: Bureau of General Economic Research and Policies of the United Nations Secretariat, based on Statistical Office of the United Nations, *Monthly Bulletin of Statistics*; Food and Agriculture Organization of the United Nations, *Production and Trade Yearbook and Price of Agricultural Products and Fertilizers in Europe, 1961/62*;

Commonwealth Economic Committee, *Plantation Crops*; International Sugar Council, *The World Sugar Economy: Structure and Policies*, vol. I; National Institute of Statistics and Economic Studies, *Annuaire statistique de la France, 1962* (Paris); Bank of Japan, *Wholesale Price Index*, (foot-notes continued on page 124)

(foot-notes to table 5B-4 (continued))

*Annual 1961*; Ministry of Finance, *Trade of Japan, Commodity by Country, 1961* (Tokyo); Metallgesellschaft Aktiengesellschaft, *Metal Statistics, 1952-1961*; *Statistisches Jahrbuch für die Bundesrepublik Deutschland, 1962*.

*Note on commodity coverage:* The figures for production and trade relate to the commodity in its crude form; rice is measured in milled equivalent, sugar in raw value, beef and veal trade refers only to fresh, frozen and chilled; oil-seeds and oils are measured in oil-equivalent, metals refer to smelter production and trade in unwrought ingots and shapes.

*Note on country coverage:* The figures exclude production and exports of centrally planned economies. In the case of sugar, trade of the United States with Puerto Rico, Hawaii and the Virgin Islands is excluded.

*Note on time coverage:* Production figures relate to crop seasons ending in the years indicated except in the case of wool, hard fibres and metals for which they are for calendar years. Trade figures refer to calendar years. Prices are annual averages for 1961 or 1962.

<sup>a</sup> Unless otherwise stated, import unit values are c.i.f. except for the United States which are f.o.b. and have therefore been placed in parentheses.

<sup>b</sup> Including payment under the Deficiency Payment Scheme.

<sup>c</sup> Imports negligible.

<sup>d</sup> Paddy. Japan, brown rice, government-fixed producer price, including packing; United States, average producer price, including premiums.

<sup>e</sup> Domestic production relatively small or not subject to direct support.

<sup>f</sup> Milled. France, auction price; Federal Republic of Germany, import price; Italian, semi-rough, average 1962; Japan, indigenous, official price for basic rations; United Kingdom, Italian, n.f.s., spot, London; United States, Zenith No. 2, wholesale price, Nato.

<sup>g</sup> Average producer prices for sugar-beets, including subsidies and premiums, converted to an equivalent price for beet sugar.

<sup>h</sup> France, granulated No. 3, ex-factory, excluding taxes and wholesaler's margin; Federal Republic of Germany, white sugar, ex-factory, excluding taxes and wholesaler's margin; Japan, refined equivalent of raw sugar, duty paid; United Kingdom, domestic refined sugar, ex-factory, excluding excise and surcharge; United States, refined cane sugar, net cash, New York.

<sup>i</sup> Imports into the United Kingdom, 640,000 tons at world market price (7.3 cents per kilogramme) and 1,507,000 tons under the Commonwealth Agreement at 12.4 cents per kilogramme.

<sup>j</sup> Japan, bright yellow, second grade, tobacco monopoly fixed producer price, excluding premiums and the cost of packing; United States, average producer price.

<sup>k</sup> Equivalent price for carcass weight of all types and grade of beef cattle (excluding calves). United Kingdom, including price subsidy and production grants.

<sup>l</sup> Slaughter weight. France, oxen, first quality, wholesale

price excluding taxes, Paris; Federal Republic of Germany, oxen, young, well-fleshed, twenty-four markets, converted to an equivalent price for carcass weight; United Kingdom, beef, Argentine, hindquarters, chilled, wholesale price, London; United States, steer beef, dressed, choice, wholesale price, Chicago.

<sup>m</sup> France, North African, average price f.o.b. train, Channel ports; Federal Republic of Germany, Spanish, auction price Hamburg; United Kingdom, Israeli, Shamouti, auction price London; United States, California Valencia, auction price New York.

<sup>n</sup> France, imports from Ivory Coast; Federal Republic of Germany and United States, imports from Angola; Japan and United Kingdom, imports from Uganda.

<sup>o</sup> Imports from Colombia.

<sup>p</sup> France, charentes creamery wholesale price; Federal Republic of Germany, best dairy, standard selling prices, including packaging, free purchaser's station, Lower Saxony; United Kingdom, New Zealand, finest, Ministry of Food first-hand selling price; United States grade A, 92 score, wholesale price, Chicago.

<sup>q</sup> Trade figures represent oil plus seeds (measured as oil).

<sup>r</sup> Largely extra-long staple.

<sup>s</sup> Weighted average unit value of exports to the United States from Argentina, Australia, New Zealand, South Africa and Uruguay.

<sup>t</sup> Jute and jute butts unmanufactured.

<sup>u</sup> Ingots, 99 to 99.5 per cent. France, auction price; Federal Republic of Germany, domestic price; Japan, wholesale price; United Kingdom, domestic/import price, ex-warehouse, London; United States, domestic price delivered to consumers, purity 99 per cent plus, domestic or imported ingot.

<sup>v</sup> France, auction price; Federal Republic of Germany, domestic price; Japan, wholesale price; United Kingdom, London Metal Exchange quotations, cash, c.i.f.; United States, domestic price, f.o.b., refinery, New York.

<sup>w</sup> Blister and other types, ingots or pigs, unrefined smelted for export.

<sup>x</sup> Common grade. France, auction price; Federal Republic of Germany, wholesale price, based on the London Metal Exchange quotation, cash; Japan, wholesale price, United Kingdom, average quotation of London Metal Exchange, ex-warehouse, excluding duty; United States, domestic price, New York.

<sup>y</sup> Lead pigs and bars.

<sup>z</sup> Good brand. France, auction price; Federal Republic of Germany, wholesale price, based on the London Metal Exchange quotation, cash; Japan, wholesale price; United Kingdom, London Metal Exchange, ex-warehouse, excluding duty; United States, prime western, domestic price East Saint Louis.

<sup>aa</sup> Ingots 99 to 99.9 per cent. France, auction price; Federal Republic of Germany, domestic price; Japan, wholesale price; United Kingdom, London Metal Exchange, cash quotation; United States, Straits tin, domestic import price c.i.f. New York.

Table 5B-5. Primary Commodities: General (Non-Preferential) Tariffs in Force in Major Industrial Countries, 1962-1963

(Percentage ad valorem<sup>a</sup>)

Commodity	United States	United Kingdom	Japan	Benelux	Federal Republic of Germany	France	Italy	European Economic Community
Live animals <sup>b</sup> .....	s(0-15)5	(0-10)0	0	(0-12)11	(0-16)12	(0-30)16	(0-23)16	(6-16)16
Beef and veal <sup>c</sup> .....	s10	(3-20)3	10	14	(13-20)20	(10-20)20	20	20
Mutton and lamb .....	s15	0	10	14	20	(10-24)24	20	20
Pork <sup>c</sup> .....	s3	10	10	(0-11)0	(9-17)17	6	(2-20)20	(7-20)20
Bacon and ham .....	s4	(0-10)10	25	0	(22-25)22	36	25	25
Other dried or smoked meat .....	10	(0-10)10	15	16	24	32	24	(16-24)24
Butter <sup>c</sup> .....	(15-30)15	s5 <sup>d</sup>	45	18	24	7	28	24
Cheese <sup>c</sup> .....	(s12-25)15	(10-15)15	(35-45)45	(14-17)17	(s17-28)27	(14-17)15	(13-23)23	(12-23)20
Eggs <sup>c</sup> .....	s(10-12)10	(5-8)8	(20-25)25	(0-5)4	(8-14)10	(14-18)18	4	(12-15)15
Fish <sup>e</sup> .....	s(0-25)6	(0-30)10	(0-15)15	(0-18)8	(0-20)7	(10-32)29	(11-20)12	(0-25)16
Wheat <sup>e</sup> .....	s(5-11)5	0	20	0	0	6	(0-25)0	20
Rice <sup>e</sup> .....	s(6-21)6	(0-11)0	15	0	(0-15)0	(3-5)3	(0-16)16	(9-16)
Barley <sup>c</sup> .....	s6	10	10	0	0	(2-4)4	(0-10)0	13
Maize <sup>c</sup> .....	s7	(0-10)5	10	0	0	(0-3)3	(0-9)0	(7-9)
Rye <sup>c</sup> .....	s5	10	15	0	0	5	(0-10)10	16
Wheat flour <sup>c</sup> .....	s13	10	25	0	18	9	(0-30)30	30
Oranges and tangerines .....	s25	10	(20-40)40	(5-15)15	(12-13)13	(15-31)15	(7-9)9	(15-20)20
Other citrus fruit .....	s(22-25)25	10	20	(12-19)12	(2-12)7	(12-23)12	(5-14)10	(8-16)12
Bananas .....	0	12	30	17	6 <sup>f</sup>	20	51	20
Apples .....	s3	(0-s5)5	20	(7-13)13	(5-16)16	(3-14)11	(8-10)10	(8-14)11
Grapes .....	s5	(s5-20)10	20	(5-7)5	(9-22)22	(16-23)16	(12-13)12	(18-22)20
Nuts .....	s(2-33)15	(0-10)10	(0-30)20	(8-21)9	(2-5)2	(1-13)6	(3-15)10	(2-8)5
Dried fruit .....	s(3-33)18	(0-15)15	20	(9-11)9	(5-11)5	(9-20)9	(11-14)11	(8-18)8
Pineapples .....	s20	7 <sup>s</sup>	20	21	4	7	15	12
Potatoes .....	s18	s(3-15)7	10	(7-13)13	(3-27)14	(7-27)27	(3-15)15	(10-20)20
Beans and peas .....	s(12-32)25	(10-33)10	10	(11-17)17	(7-23)14	(16-17)17	(10-11)11	(12-17)17
Tomatoes .....	s(20-26)26	10	10	(14-18)18	(7-20)14	(14-23)23	(7-9)9	(11-18)18
Frozen vegetables .....	25	10	10	16	27	17	(12-17)12	19
Sugar .....	s(2-40)12	s(17-44)17	s210	s74	24	(24-99)24	98	80
Molasses .....	s41	s(30-88)30	(5-35)35	(3-39)39	(0-29)9	(1-48)2	(0-79)45	(0-65)40
Honey .....	s9	s5	30	17	36	30	34	30
Coffee .....	0	s(4-6)4	35	(5-9)5	s28	(18-47)18	s(20-40)20	10
Cocoa beans .....	0	s(1-2)1	5	3	9	(3)3	(3-18)3	9 <sup>g</sup>
Cocoa powder .....	s7	s3	30	15	27	27	24	27
Cocoa-butter paste .....	s6	s(1-2)1	(10-20)10	(10-15)10	(30-32)32	(22-25)22	22	(22-25)22
Tea .....	0	s4	35	(3-7)5	s(40-60)55	(18-28)23	(40-42)42	11
Pepper and pimiento .....	s(0-10)0	(s1-10)1	(0-25)5	(0-22)17	(0-32)28	(14-29)27	(28-57)48	(20-25)20
Other spices .....	s(0-22)0	(0-10)10	(0-25)0	(0-22)18	(0-32)28	(4-29)27	(6-57)55	(15-25)20
Wine .....	s(8-40)12	(10-s54)10	s(55-85)74	s(5-40)18	s(29-163)65	s(23-110)30	s(22-82)30	s30
Hay and fodder .....	s4	(0-10)10	0	(0-3)0	(0-12)0	(0-20)3	(0-21)0	(0-9)0
Bran pollard .....	3	10	0	(0-6)2	(0-21)16	(2-34)6	(9-28)15	(8-21)16

Table 5B-5 (continued)

Commodity	United States	United Kingdom	Japan	Benelux	Federal Republic of Germany	France	Italy	European Economic Community
Oil-seed cake, meal	s(3-10)10	(10-15)15	(0-5)0	0	0	0	(0-7)5	0
Fish meal, meat meal	0	(0-10)10	0	2	(0-18)3	(1-8)8	(1-17)5	(3-4)4
Tobacco	s(16-21) <sup>h</sup> 18	1	355	(7-23)16	s(27-62)49	(5-9)9	0	(15-28)16
Hides and skins	(0-40)0	(0-10)0	0	0	0	0	(0-30)0	0
Fur skins	0	(0-10)0	(0-20)13	0	0	0	0	0
Ground-nuts	s(37-50)37	10	20	0	0	0	(0-6)0	0
Copra	0	10	0	0	0	7	0	0
Palm kernels	0	10	0	0	0	7	0	0
Soya beans	s(2-16)16	5	(7-13)13	0	0	0	0	0
Linseed	s16	10	0	0	0	(0-6)0	0	0
Cotton-seed	s5	0	0	0	0	0	(0-7)5	0
Castor oil-seed	s5	8	0	0	0	6	(0-4)4	0
Soya-bean oil	s45	15	s27 <sup>j</sup>	(5-12)7	(7-24)10	(14-16)15	(3-22)12	(0-15)10
Cotton-seed oil	s(18-22)22	10	s60 <sup>j</sup>	(5-12)7	(7-24)10	(14-16)15	(3-22)12	(5-15)10
Ground-nut oil	s36	15	s24 <sup>j</sup>	(5-12)7	(7-24)10	(14-16)15	(3-17)3	(5-15)10
Olive oil	(0-s27)0	10	0	(5-13)11	(2-11)10	(17-20)20	(5-20)15	(5-20)13
Sunflower-seed oil	(s1-8)1	15	15	(5-12)7	(7-24)10	(14-16)14	(3-22)6	(5-10)8
Rape, kolza, mustard oils	(0-s5)0	15	s10 <sup>j</sup>	(5-12)7	(7-24)10	(14-16)14	(3-19)6	(5-10)8
Linseed oil	s15	15	10	(5-12)7	(7-24)10	(2-16)4	(5-19)11	(5-15)8
Palm oil	0	10	10	(1-11)3	(1-6)4	(4-14)7	(1-14)3	(5-14)9
Coconut oil	s10	15	10	(5-12)7	(7-24)10	(12-16)13	(9-19)9	(5-10)9
Palm kernel oil	(0-s5)5	10	10	(5-12)7	(7-24)10	(12-16)13	(2-20)14	(5-10)5
Castor oil	s12	13	10	(0-12)0	(0-9)0	(6-15)6	(7-16)13	(0-15)4
Marine oils	(0-s20)20	(0-10)10	(0-10)10	(0-2)1	(0-9)7	(0-23)6	(0-5)2	(0-6)0
Animal oils, fats and greases	s30	(0-10)10	(5-15)15	(0-4)3	(0-22)10	(0-35)14	(0-22)7	(0-22)7
Silk	0	0	(0-15)15	(0-3)2	(0-1)0	(0-2)1	(0-15)7	(0-10)5
Wool, greasy	s(0-35)18	0	0	0	0	0	0	0
Wool, degreased	s(0-43)13	0	0	0	1	0	0	0
Wool, shoddy and waste	s(20-35)20	(0-5)0	0	0	0	(0-2)0	(0-3)0	0
Wool, carded	s(31-43)31	10	0	1	2	(2-8)2	(1-4)4	3
Wool, tops	s30	10	0	2	2	(2-8)2	4	3
Cotton, raw	(0-s8)8	(0-10)0	0	0	0	0	4	0
Cotton, linters	0	s(0-1)0	0	0	0	0	0	0
Cotton, waste	0	0	0	0	0	0	(4-5)4	0
Cotton, carded	(9-23)9	10	0	1	1	(6-8)6	7	3
Jute	0	0	0	0	0	0	3	0
Flax	s1	0	0	0	0	0	0	0
Hemp	s1	0	0	0	0	0	0	0
Ramie	0	0	0	0	0	0	3	0
Agaves	0	0	0	0	0	0	0	0
Abaca	0	0	0	0	0	0	3	0
Rubber, natural	0	(0-10)0	0	(0-4)0	0	0	0	0
Rubber, synthetic	7	10	(0-10)10	(0-2)0	(0-2)2	(0-17)0	(0-20)0	(0-8)8



Rubber, reclaimed .....	0	10	10	1	10	1	10	3
Rubber, scrap .....	0	0	0	0	0	0	0	0
Fuel wood and charcoal.....	0	(8-10)8	0	(0-10)0	(0-14)0	(0-13)0	(0-9)7	(0-13 <sup>e</sup> )0
Logs, coniferous .....	0	s(0-1)1	0	(0-2)2	(0-9)0	(0-2)0	(0-15)0	(0-6)2
Logs, non-coniferous .....	0	(0-10)10	(0-20)0	(0-2)2	(0-2)2	(1-2)2	(0-13)13	5
Hoopwood and piling.....	0	(10-16)16	(0-15)0	(4-8)8	(2-14)14	(2-11)11	(4-11)4	8
Sleepers, wooden .....	0	(s1-10)1	0	(4-5)5	(2-9)9	14	(6-10)8	(6-10)6
Lumber, coniferous .....	s(0-1)1	(7-10)10	(0-10)10	(0-10)3	(2-10)7	(0-10)7	(0-15)7	(0-13)10
Lumber, non-coniferous .....	s(0-8)3	(0-15)12	(0-20)0	(0-10)3	(0-6)3	(3-10)3	(6-15)6	10
Cork .....	(0-30)8	(0-10)5	(0-5)0	(2-10)2	(0-6)0	(9-23)9	(9-24)9	(5-12)5
Wood-pulp .....	0	0	5	(0-2)2	(0-6)0	(0-6)0	(0-19)0	(0-6)0
Ivory horns .....	0	(0-10)2	0	0	0	0	0	0
Dyeing and tanning vegetables...	0	(0-10)0	0	0	0	0	(0-2)0	0
Gums and resins .....	0	(0-10)5	(0-15)10	(0-1)0	(0-1)0	(0-7)0	(0-3)3	(0-3)0
Plaiting materials .....	0	(0-10)5	(0-10)5	(0-1)0	(0-9)2	(0-5)4	(0-9)3	(0-3)2
Vegetable essence .....	0	(0-10)0	(0-20)0	(0-1)0	(0-5)1	(0-8)4	(0-9)6	(0-15)3
Seeds .....	s(3-13)6	10	(0-15)15	(0-5)2	(3-22)7	(0-29)3	(0-3)3	(0-15)8
Bulbs, trees .....	s(3-6)6	(0-25)25	0	(0-5)3	(0-26)18	(0-28)26	(5-18)10	(10-18)15
Cut flowers .....	10	(2-25)22	10	(0-21)17	(3-28)22	(20-27)22	(6-16)15	(0-24)20
Fertilizer, organic .....	0	10	0	0	0	0	0	0
Sodium nitrate .....	0	0	0	0	0	0	0	0
Phosphate, natural .....	0	0	0	0	0	0	0	0
Potassic salts .....	0	0	0	(0-1)0	0	0	0	0
Stone .....	(0-15)7	(0-30)10	(0-10)0	(0-7)0	(0-11)2	(0-17)3	(0-6)0	(0-10)0
Sulphur .....	0	0	10	0	(0-2)0	0	0	(0-8)0
Iron pyrites .....	0	0	0	0	0	0	0	0
Diamonds, industrial .....	0	(0-20)0	15	0	0	0	0	0
Natural abrasives .....	s(0-12)8	(0-10)0	(0-15)7	(0-11)6	(0-11)9	(0-6)5	(2-15)11	(0-11)6
Asphalt .....	0	10	0	0	0	(0-3)3	0	0
Clay, refractories .....	s(0-5)5	(0-10)8	(0-15)0	(0-11)3	(0-11)3	(0-7)0	(0-10)3	(0-4)0
Salt .....	s(7-27)7	(0-33)10	0	(5-33)2	(0-15)15	(0-30)30	(0-66)22	s20
Asbestos .....	0	10	0	0	0	0	0	0
Quartz, mica .....	s(0-13)1	(0-10)0	0	(0-1)0	(0-4)0	(0-3)0	(0-7)0	(0-3)0
Slag .....	0	0	0	(0-1)0	0	(0-19)0	(0-1)0	(0-3)0
Iron ore and concentrates.....	0	0	0	0	0	0	0	0
Iron pyrites, roasted.....	0	0	0	0	0	0	0	0
Iron and steel scrap.....	s2	0	0	0	0	0	0	k
Ferro-manganese .....	s(7-30)7	(0-10)0	10	2	(0-8)2	(3-10)3	(6-10)6	8
Ferro-chrome .....	s(5-37)9	0	10	2	8	9	(5-11)5	8
Copper ore .....	s6	0	0	0	0	0	0	0
Nickel ore .....	0	0	0	0	0	0	0	0
Bauxite ..	s5	0	0	0	0	0	0	0
Lead ore .....	s8	0	0	0	0	0	3	0
Zinc ore .....	s11	0	0	0	0	0	3	0
Tin ore .....	0	0	0	0	0	0	0	0
Manganese ore .....	s8	0	0	0	0	0	0	0
Silver and platinum ores.....	0	0	0	0	0	0	0	0
Uranium and thorium ores.....	0	0	0	0	0	0	0	0

Table 5B-5 (continued)

Commodity	United States	United Kingdom	Japan	Benelux	Federal Republic of Germany	France	Italy	European Economic Community
Silver, unwrought	0	0	(3-10)3	0	0	0	(0-7)0	0
Platinum, unwrought	0	(0-10)0	(0-10)0	0	0	0	0	0
Copper, unwrought	s(0-5)5	(0-10)0	(0-25)0	0	0	(0-12)0	s(0-2)0	0
Copper, wrought	s(0-18)7	(10-20)15	(20-30)20	(0-13)7	(0-11)9	(6-21)12	(8-13)12	(8-15)13
Nickel, unwrought	s(0-2)2	(0-10)0	(0-30)0	0	0	(0-4)0	0	0
Nickel, wrought	s(3-14)12	(0-20)20	(20-30)20	(1-11)7	(2-10)8	(9-15)12	(2-12)10	(2-10)9
Aluminium, unwrought	s6	(0-10)0	10	3	10	(15-16)15	(10-21)21	10
Aluminium, wrought	(s7-40)7	(13-20)20	(15-20)20	(3-16)8	(8-16)14	(16-23)16	(13-27)23	(8-21)20
Lead, unwrought	(0-s12)4	(0-10)1	10	s2	s2	s9	(7-10)10	s5
Lead, wrought	s13	(10-20)20	(15-20)20	(2-15)6	(8-11)10	(6-16)14	(9-15)14	(5-15)14
Zinc, unwrought	s7	(2-10)10	10	s2	s2	s10	11	s5
Zinc, wrought	s(0-12)9	(10-20)20	(15-20)15	(2-15)7	(2-9)7	(12-16)13	(0-15)13	(7-15)13
Tin, unwrought	0	0	(5-10)5	0	0	0	0	0
Tin, wrought	(0-35)35	(10-20)20	(10-15)10	(2-14)5	(2-9)4	(8-15)8	(8-16)8	(6-14)9
Uranium, thorium	(0-25)0	(0-10)0	0	(0-2)0	(0-2)0	(0-2)0	(0-2)0	(0-2)0
Magnesium, beryllium	(17-40)17	(10-20)10	(10-20)15	(1-9)6	(0-14)8	(13-21)13	(3-23)11	(6-8)7
Tungsten, molybdenum and tantalum	s(0-51)10	(0-33)0	(10-15)10	(1-7)3	(1-9)3	(13-25)13	(2-12)24	(3-13)4
Petroleum, crude	s(2-5)3	0	s11	0	s(0-138)0 <sup>1</sup>	(0-18)0	(0-11)0	0
Motor spirit	s(14-16)15	s16 <sup>1</sup>	s(14-24)21	(0-9s)4	s(0-145)72 <sup>1</sup>	5	(0-16)16	m
Lamp oil, kerosene	s4	s17 <sup>1</sup>	s19	0	s87 <sup>1</sup>	5	(0-16)16	m
Residual/distillate fuel oils	s(2-4)3	s33 <sup>1</sup>	s(10-11)11	(0-5)5	s(0-162)86 <sup>1</sup>	2	(0-16)12	m
Lubricating oils, greases	s7	s15 <sup>1</sup>	(20-30)20	0	s(18-33)18 <sup>1</sup>	9	(0-14)14	m
Mineral jellies, waxes	0	10	(10-20)10	(0-6)0	s(15-23)23	(2-9)5	(0-14)14	m
Coal	s17	(0-16)0	(0-10)0	(0-1)0	(0-2)0	(0-1)0	(0-11)0	m
Gases	0	(8-10)8	(5-20)5	0	0	(0-2)0	(4-16)4	m

Source: Bureau of General Economic Research and Policies of the United Nations Secretariat, compiled from *Bulletin international des Douanes: Belgique, Pays-Bas et Luxembourg* (1962-1963); *Japan* (1962-1963); *Italy* (1962-1963); *France* (1962-1963); United States Department of Treasury, United States Department of Commerce and United States Tariff Commission, *United States Import Duties Annotated* (1 July 1963); *Her Majesty's Customs and Excise Tariff of the United Kingdom and Northern Ireland* (1960, 1962); Bundesminister der Finanzen, *Deutscher Zolltarif*, 1963; Ministère des Affaires économiques et de l'Energie, *Bulletin Mensuel du commerce extérieur de l'Union Economique Belgo-Luxembourgeoise* (December 1962); United States Department of Commerce, *United States Imports* (1962 annual); Italy: Istituto Centrale di Statistica, *Statistica Mensile del Commercio con l'estero* (December 1962); France Ministère des Finances et des Affaires économiques, *Statistiques du commerce extérieur* (1962); Statistical Office, Customs and Excise, *United Kingdom Trade and Navigation Report*, 1962; Statistisches Bundesamt, *Aussenhandel* (Weisbaden, December 1962); Japan: Ministry of Finance, *Japan Trade* (1962); Netherlands: Central Bureau Voor De Statistiek, *Maandstatistiek van de in, uit en doorvoer per goederensoort* (December 1962).

Note: The commodities have been specified in terms of their SITC category at the four-digit level, which is the basis on which trade data have been presented in the present chapter. This is a much less detailed breakdown than most tariff classifications. Consequently, for present purposes, most tariffs have had to be specified in terms of a range and a particular rate. The range usually refers to opposite ends of the quality or "degree of processing" spectrum, the lowest rates applying to the crudest material, the highest rate to the most refined. The particular rate indicated alongside the range represents a judgement concerning the tariff under which most of the item not coming from a preferential source was in fact—or in some cases would have been—imported in 1962.

As tariffs constitute an active policy instrument, they are subject to constant change. The rates cited are those considered most relevant for use with the 1962 trade data in order to illustrate the policy problems discussed in this chapter. With some exceptions, they do not take into account changes that may have been made in the fiscal year 1963/64. The rates shown for the EEC are those embodied in the proposed common external tariff, coming into operation in stages during the nineteen sixties.

<sup>a</sup> Where duties are specific, in the original tariff (indicated by an "s" in the table) they have been converted to their *ad valorem* equivalent on the basis of 1962 trade quantities and values. All figures have been rounded to the nearest integer.

<sup>b</sup> The "most significant" rate is that applying to cattle for slaughter.

<sup>c</sup> In the member countries of the EEC, these items became subject to a variable import levy in mid-1962 (wheat, barley, maize, rye, pork, eggs) or in early 1964 (beef and veal, butter and cheese and rice).

<sup>d</sup> Temporarily suspended.

<sup>e</sup> In Belgium-Luxembourg, the Netherlands and the United Kingdom the upper end of the tariff applies only to crustacea and molluscs.

<sup>f</sup> A protocol to the Rome Treaty makes provision for a tariff-free quota. This amounted to 483,000 tons in 1962 and 361,000 tons in 1963.

<sup>g</sup> Reduced to 5 per cent at the beginning of 1964.

<sup>h</sup> The duty on stemmed wrapper tobacco is \$1.55 per pound (no recorded imports).

<sup>i</sup> Regarded as excise duties; see table 5-8 in the text.

<sup>j</sup> Based on 1961 average unit values.

<sup>k</sup> To be determined by the European Coal and Steel Community.

<sup>l</sup> Zero duty came into force in January 1964; in 1962-1963 the effective rate was DM 80 per ton (125 DM per ton less drawbacks on crude used for specified purposes) or about 116 per cent *ad valorem*.

<sup>m</sup> No common tariff yet decided.

Table 5B-6. Primary Commodity Tariffs: Rates Affecting Imports into the Major Industrial Countries from the Developing Countries,<sup>a</sup> 1962

(Rates in percentage; imports in millions of dollars)

Commodity	United States		United Kingdom		Japan		Belgium-Luxembourg		Federal Republic of Germany		France		Italy		Netherlands	
	Rate	Imports	Rate	Imports	Rate	Imports	Rate	Imports	Rate	Imports	Rate	Imports	Rate	Imports	Rate	Imports
Live animals .....	s5	57.2	0	0.1	0	0.3	11	—	12	0.4	16	4.0	16	—	11	—
Beef and veal .....	s10	41.4	3	111.4	10	2.1	14	8.6	20	14.0	15	2.7	20	21.6	14	6.0
Mutton and lamb .....	s15	—	0	9.0	10	—	14	—	20	—	24	0.2	20	—	14	—
Pork .....	s3	—	2	—	10	—	0	—	17	—	6	0.2	20	1.4	0	—
Bacon and ham .....	s4	—	10	—	25	—	0	—	22	—	36	—	25	0.1	0	—
Other dried and smoked meat .....	10	0.3	10	0.1	15	—	16	0.5	24	—	32	—	24	—	16	2.1
Butter .....	15	—	4	7.5	45	—	18	—	24	0.1	7	—	28	0.1	18	—
Cheese .....	15	1.1	2	0.2	45	—	17	0.1	27	—	15	0.1	23	—	17	—
Eggs .....	10	0.1	6	0.2	25	—	4	0.1	10	3.2	18	0.3	4	8.4	4	—
Fish .....	s6	118.3	3	1.5	15	9.2	8	0.1	7	0.2	26	7.8	12	1.3	8	0.3
Wheat .....	s5	—	0	32.6	20	—	0	3.5	0	60.1	6	29.4	0	11.0	0	5.8
Rice .....	s6	0.1	0	5.9	15	23.8	0	4.9	0	5.2	2	11.6	16	0.1	0	6.2
Barley .....	s6	—	10	0.2	10	—	0	3.1	0	17.1	4	1.8	0	10.6	0	0.9
Maize .....	s7	1.7	3	16.5	10	21.0	0	13.1	0	12.4	3	4.2	0	88.9	0	13.4
Rye .....	s5	—	10	—	15	—	0	0.3	0	0.3	5 <sup>b</sup>	—	0	—	0	0.3
Other cereals .....	s6	—	10	10.1	15	0.1	0	9.0	0	2.0	2	1.9	9	1.3	0	7.3
Wheat flour .....	s13	—	9	0.1	25	—	0	—	18	—	9	2.0	30	—	0	0.1
Other flour .....	17	—	0	0.1	0	0.4	0	—	0	—	0	—	0	—	0	—
Oranges and tangerines .....	s25	1.1	9	28.0	40	—	15	1.6	13	33.0	15	82.7	9	0.1	15	7.4
Other citrus fruits .....	s25	0.4	5	8.4	20	—	12	0.5	7	3.1	12	5.2	7	—	10	0.6
Bananas .....	0	78.6	3	61.6	30	12.5	14	6.6	0	54.3	0	67.1	16	22.5	17	7.6
Apples .....	s3	0.2	s5	0.6	20	—	13	0.7	16	8.5	11	5.4	10	—	13	1.3
Grapes .....	s5	1.8	0	1.7	20	—	5	—	22	0.1	16	0.5	12	—	5	—
Nuts .....	s15	49.8	5	16.7	20	0.3	9	0.5	2	9.6	5	3.3	10	0.4	9	1.1
Other fresh fruit .....	s20	9.6	5	2.4	20	0.1	17	0.2	3	3.7	34	10.1	10	0.2	17	0.1
Dried fruit .....	s18	3.0	15	3.7	20	0.4	9	0.5	5	5.1	9	1.7	11	0.7	9	1.2
Potatoes .....	s18	—	4	27.8	10	—	13	0.8	14	1.1	27	18.6	15	0.2	13	1.9
Beans, peas .....	s25	0.9	8	5.5	10	9.9	17	1.2	14	8.3	17	7.0	11	3.2	17	2.9

Table 5B-6 (continued)

Commodity	United States		United Kingdom		Japan		Belgium-Luxembourg		Federal Republic of Germany		France		Italy		Netherlands	
	Rate	Imports	Rate	Imports	Rate	Imports	Rate	Imports	Rate	Imports	Rate	Imports	Rate	Imports	Rate	Imports
Tomatoes .....	s26	17.4	10	—	10	—	18	—	14	1.2	23	29.5	9	—	18	—
Other vegetables, fresh .....	s25	11.4	13	11.9	10	0.4	16	0.6	14	7.8	14	16.6	11	0.6	16	1.4
Frozen vegetables .....	s25	—	5	—	10	—	16	—	27	—	17	0.4	12	0.1	16	—
Other edible vegetable products .....	s25	0.3	0	2.6	15	—	12	0.4	4	6.3	15	3.3	7	1.8	12	—
Sugar, raw .....	s9	450.3	s10	96.7	{s210 s15}	{79.1 15.4}	74	0.1	{24 24}	{1.6 2.6}	0	70.1	68	—	50	0.3
Sugar, refined .....	s40	21.3														
Molasses .....	s41	28.0	s30	11.0	35	14.3	39	1.3	9	1.3	2	1.0	45	0.2	39	3.1
Honey .....	s9	0.7	s4	0.9	30	—	17	0.3	36	9.1	30	0.6	34	0.2	17	0.4
Coffee .....	0	989.2	0	39.4	35	9.9	5	33.3	s28	212.6	14	143.4	s18	65.5	5	42.3
Cocoa beans .....	0	130.4	0	54.1	5	11.5	2	6.7	9	67.7	0	32.1	2	18.8	1	45.6
Cocoa powder .....	s7	0.7	0	—	30	—	15	—	27	—	27	—	24	—	15	—
Cocoa butter .....	s6	12.6	0	11.6	10	1.0	10	—	32	—	13	4.0	22	0.2	10	3.1
Tea .....	0	53.7	0	320.9	35	2.4	5	0.1	s55	12.6	23	2.8	42	2.1	7	2.3
Pepper .....	0	15.8	0	3.0	5	0.8	17	0.4	28	4.6	25	4.0	48	2.0	17	0.5
Other spices .....	0	16.4	0	3.1	0	0.9	18	0.4	28	3.8	25	2.5	55	0.6	18	0.9
Wine .....	s12	0.5	s7	1.3	74	—	s18	0.7	s65	1.4	12	266.1	30	—	18	0.1
Hay and fodder .....	s4	—	3	0.7	0	—	0	—	0	—	3	—	0	0.4	0	—
Bran, pollard .....	3	0.6	5	15.3	0	9.2	2	8.7	16	3.3	6	8.0	15	0.1	2	7.5
Oil-seed cakes and meal .....	s10	3.8	3	86.9	0	0.3	0	10.5	0	51.5	0	29.6	5	3.2	0	28.9
Fish meal .....	0	18.2	9	12.1	0	4.4	2	6.7	3	35.1	8	10.0	4	7.1	2	19.9
Other animal feed .....	3	0.2	4	1.4	5	0.1	3	0.7	7	0.1	8	0.3	1	0.1	3	1.1
Tobacco .....	s18	25.6	1,300 <sup>c</sup>	92.9	355	5.0	16	10.2	49	42.6	5	13.7	0	10.7	16	7.7
Hides and skins .....	0	32.1	0	14.0	0	8.2	0	1.4	0	20.9	0	29.5	0	29.6	0	6.6
Fur skins .....	0	21.9	0	12.3	13	—	0	1.1	0	15.5	0	2.7	0	0.2	0	0.1
Ground-nuts .....	s37	0.2	0	36.6	20	0.3	0	12.7	0	18.5	0	93.2	0	14.2	0	7.4
Copra .....	0	46.6	0	11.8	0	13.6	0	3.9	0	37.2	7	15.9	0	3.9	0	16.9
Palm kernels .....	0	—	0	28.2	0	3.4	0	4.1	0	16.0	7	10.7	0	—	0	15.6
Soya beans .....	s16	—	0	1.5	13	0.2	0	—	0	5.8	0	0.3	0	1.0	0	0.3
Linseed .....	s16	—	0	—	0	0.1	0	0.2	0	0.3	0	2.7	0	1.7	0	1.6
Cotton-seed .....	s5	—	0	15.9	0	11.2	0	—	0	2.0	0	—	5	—	0	—
Castor oil-seed .....	s5	1.0	2	2.5	0	4.2	0	0.9	0	3.5	6 <sup>b</sup>	3.6	4	1.4	0	0.4
Other oil-seeds .....	9	3.1	0	5.1	0	11.2	0	1.8	0	1.8	0	0.6	0	5.1	0	4.1
Flour and meal of oil-seeds .....	0	—	8	0.2	0	—	0	—	0	—	0	—	0	—	0	—
Soya-bean oil .....	s45	—	15	—	s27	0.1	7	—	10	0.1	15	—	12	—	7	0.4
Cotton-seed oil .....	s22	—	10	0.1	s60	—	6	0.3	10	0.6	15	—	12	—	7	—
Ground-nut oil .....	s36	0.2	0	11.3	s24	—	7	1.2	10	5.7	13	41.1	3	—	7	1.5
Olive oil .....	0	1.3	2	0.1	0	—	11	—	10	—	20	12.1	15	21.5	11	—
Sunflower-seed oil .....	s1	—	15	—	15	—	7	0.4	10	0.5	14	—	6	—	7	0.6
Rape, kolza and mustard oil .....	0	—	15	—	s10	—	7	—	10	—	14	—	6	—	7	—
Linseed oil .....	s15	—	15	7.4	10	0.2	7	0.1	10	19.8	4	3.6	11	3.6	7	2.2
Palm oil .....	0	3.2	0	24.2	10	2.9	0	7.5	4	17.0	0	6.5	3	5.5	3	0.5
Coconut oil .....	0	25.3	0	7.4	10	—	7	—	10	2.4	13	0.1	9	4.0	7	—

Palm kernel oil.....	s5	4.1	10	—	10	—	7	—	8	2.7	13	0.2	5	1.7	7	—
Castor oil .....	s12	10.1	3	3.4	10	—	0	0.1	0	0.3	6	5.7	13	—	3	0.2
Fixed vegetable oil.....	0	9.0	11	3.8	15	0.2	6	0.4	11	2.3	14	8.0	15	0.6	8	0.2
Fish and marine oil.....	s20	0.5	10	2.6	10	0.2	1	0.6	7	4.7	6	0.9	2	0.3	1	2.5
Animal oils, fats, greases.....	s30	8.9	8	2.1	15	0.5	3	0.1	10	2.1	14	1.2	7	1.0	3	0.4
Silk .....	0	1.6	0	—	15	0.4	2	—	0	—	1	0.2	7	2.8	2	—
Wool, greasy .....	s18	37.9	0	60.7	0	13.5	0	13.7	0	15.1	0	23.0	0	16.4	0	0.5
Wool, degreased .....	s13	28.1	0	9.3	0	0.1	0	2.3	1	5.8	0	2.7	0	2.9	0	1.2
Wool, shoddy and waste.....	s20	3.0	0	0.4	0	0.8	0	0.9	0	0.1	0	0.1	0	0.1	0	—
Wool, carded .....	s31	—	10	—	0	—	1	—	2	—	2	—	4	4.2	1	—
Wool, tops .....	s30	1.9	10	—	0	0.2	2	1.4	2	0.1	2	—	4	0.2	2	5.9
Cotton, raw .....	s8	24.8	0	98.1	0	253.7	0	28.6	0	143.1	0	120.5	4	70.4	0	26.2
Cotton, linters .....	0	4.2	0	2.3	0	2.0	0	—	0	1.4	0	0.4	0	0.1	0	—
Cotton, waste .....	0	2.6	0	3.5	0	3.9	0	0.4	0	1.1	0	0.6	4	0.1	0	0.3
Cotton, carded .....	9	0.9	10	—	0	—	1	—	1	—	6	—	7	—	1	—
Jute .....	0	13.5	0	43.4	0	14.4	0	23.5	0	12.4	0	21.5	3	10.9	0	3.3
Flax .....	s1	—	0	0.5	0	0.1	0	0.1	0	0.3	0	—	0	0.1	0	—
Hemp .....	s1	—	0	1.4	0	—	0	—	0	—	0	0.1	0	0.1	0	—
Ramie .....	0	—	0	—	0	2.0	0	—	0	0.1	0	0.2	3	—	0	—
Sisal, agaves .....	0	18.8	0	18.4	0	5.7	0	5.0	0	12.3	0	14.2	0	4.6	0	8.3
Abaca .....	0	8.6	0	5.7	0	7.4	0	0.5	0	1.0	0	1.2	3	0.2	0	1.2
Other fibres, natural.....	0	9.1	5	3.6	0	1.6	0	3.0	0	6.9	0	0.1	0	1.1	0	0.4
Synthetic fibres .....	19	0.2	0	0.3	20	—	11	—	11	—	12	—	14	—	11	—
Fabric waste .....	5	1.2	6	1.0	20	0.3	0	0.1	6	0.1	0	0.5	3	0.1	0	0.1
Rubber, natural .....	0	231.7	0	141.6	0	108.7	0	8.1	0	83.7	0	71.7	0	46.9	0	—
Rubber, synthetic .....	7	—	10	0.1	10	—	0	0.1	2	—	0	—	0	0.1	0	—
Fuel wood and charcoal.....	0	0.3	0	0.9	0	0.4	0	—	0	—	0	0.1	7	—	0	—
Pulp-wood .....	0	3.9	0	—	10	0.1	2	—	0	—	0	—	0	0.2	2	—
Logs, coniferous .....	0	0.1	1	—	0	1.8	2	—	0	0.1	0	—	13	0.1	2	0.2
Logs, non-coniferous .....	0	5.5	10	15.8	0	175.3	2	5.7	2	65.0	0	24.5	4	38.3	0	9.8
Poles and piling.....	0	0.2	0	—	0	—	8	—	14	—	2	22.9	8	—	8	—
Sleepers, wooden .....	0	—	s1	—	0	0.5	5	—	9	0.3	10	0.3	8	—	5	—
Lumber, coniferous .....	s1	9.6	10	12.6	10	1.1	3	1.3	7	9.7	7	0.1	7	0.3	3	1.0
Lumber, non-coniferous .....	s3	18.8	2	33.6	0	0.7	3	3.1	3	7.8	3	3.0	6	2.1	3	5.3
Cork .....	8	—	5	0.1	0	0.1	2	—	0	2.1	9	1.3	9	—	2	0.2
Wood-pulp .....	0	—	0	1.0	5	—	2	0.5	0	0.1	0	0.7	0	0.2	2	0.1
Waste paper .....	0	—	0	—	0	0.2	0	—	0	—	0	—	0	—	0	—
Ivory horns .....	0	4.0	2	4.5	0	2.7	0	4.5	0	2.2	0	2.7	0	0.7	0	—
Dyeing and tanning vegetables.....	0	1.3	0	1.2	0	0.3	0	0.1	0	0.2	0	0.6	0	—	0	—
Gums and resins .....	0	24.2	5	7.0	10	2.8	0	1.0	0	4.2	0	4.3	3	2.6	0	2.0
Plaiting materials .....	0	1.7	2	1.3	5	0.9	0	0.3	2	1.7	4	1.4	3	1.0	0	0.9
Vegetable essences .....	0	13.8	0	1.9	0	0.7	0	0.1	1	2.4	4	2.0	6	0.1	0	—
Seeds .....	6	1.9	2	—	15	—	2	0.1	7	0.5	3	0.5	3	1.2	2	0.2
Bulbs, trees .....	6	0.2	20	0.1	0	0.1	3	—	18	0.1	26	0.7	10	—	3	—
Flowers .....	10	—	0	0.1	10	—	17	—	22	0.1	22	0.1	15	—	17	—
Other vegetable materials.....	0	1.7	5	16.4	10	6.8	17	1.1	4	6.7	0	7.0	3	3.9	17	2.3
Fertilizer, organic .....	0	0.7	10	—	0	0.3	0	0.2	0	0.2	0	—	0	—	0	—
Sodium nitrate .....	0	14.0	0	—	0	0.7	0	1.0	0	—	0	2.7	0	0.2	0	1.2

Table 5B-6 (continued)

Commodity	United States		United Kingdom		Japan		Belgium-Luxembourg		Federal Republic of Germany		France		Italy		Netherlands	
	Rate	Imports	Rate	Imports	Rate	Imports	Rate	Imports	Rate	Imports	Rate	Imports	Rate	Imports	Rate	Imports
Phosphates, natural .....	0	3.6	0	18.0	0	12.1	0	10.0	0	14.3	0	29.2	0	9.8	0	5.0
Potassic salts .....	0	1.3	0	0.6	0	—	0	—	0	—	0	—	0	—	0	—
Stone .....	7	3.2	10	—	0	1.7	0	0.1	2	—	3	—	0	1.2	0	—
Sulphur .....	0	15.5	0	2.8	10	—	0	1.2	0	1.8	0	1.6	0	—	0	—
Iron pyrites .....	0	—	0	2.5	0	—	0	0.6	0	2.0	0	2.0	0	0.9	0	3.6
Diamonds, industrial .....	0	14.1	0	0.5	15	0.1	0	8.2	0	0.1	0	0.4	0	—	0	0.2
Natural abrasives .....	8	1.8	0	0.3	7	0.1	6	0.1	9	—	5	0.3	11	0.1	6	—
Asphalt .....	0	0.6	0	2.1	0	—	0	—	0	0.2	3	—	0	—	0	—
Clay refractories .....	5	1.7	2	1.8	0	2.4	3	0.3	3	1.2	0	1.3	3	0.7	0	0.3
Salt .....	7	1.4	10	—	0	15.1	2	—	15	—	30	0.6	22	0.5	2	—
Asbestos .....	0	1.3	0	8.7	0	0.4	0	0.4	0	1.2	0	0.5	0	0.2	0	0.1
Quartz, mica .....	1	19.9	0	4.1	0	4.8	0	0.2	0	1.9	0	1.2	0	0.6	0	0.6
Slag .....	0	—	0	—	0	1.0	0	—	0	—	0	—	0	—	0	—
Other minerals, crude .....	0	4.5	2	1.3	2	1.2	0	0.1	0	0.3	0	0.1	0	0.1	0	0.5
Iron ore and concentrates .....	0	154.2	0	75.0	0	270.4	0	1.6	0	121.2	0	10.1	0	43.6	0	14.9
Iron pyrites, roasted .....	0	—	0	—	0	0.1	0	0.1	0	0.3	0	—	0	—	0	—
Iron and steel scrap .....	s2	0.1	0	—	0	19.3	0	—	0	0.1	0	—	0	4.4	0	0.1
Copper ore .....	s6	6.2	0	—	0	52.7	0	0.2	0	12.6	0	—	0	—	0	—
Nickel ore .....	0	—	0	—	0	12.2	0	—	0	—	0	14.8	0	—	0	—
Bauxite .....	s5	122.1	0	3.5	0	13.2	0	0.2	0	2.8	0	1.8	0	1.9	0	0.1
Lead ore .....	s8	7.1	0	—	0	3.7	0	3.8	0	6.1	0	6.9	3	0.5	0	—
Zinc ore .....	s11	24.0	0	0.9	0	2.9	0	5.5	0	1.0	0	9.1	3	—	0	0.5
Tin ore .....	0	13.6	0	35.7	0	1.5	0	18.2	0	3.0	0	—	0	—	0	—
Manganese ore .....	s8	61.8	0	7.6	0	7.2	0	3.7	0	8.7	0	11.5	0	2.1	0	0.7
Other non-ferrous ores .....	0	23.5	0	10.8	0	8.4	0	3.1	0	6.7	0	7.0	0	1.1	0	0.5
Non-ferrous scrap .....	0	2.7	0	2.7	7	10.4	0	1.6	0	2.6	0	3.4	5	3.6	0	0.4
Silver and platinum ores .....	0	1.7	0	—	0	—	0	—	0	2.2	0	—	0	—	0	—
Uranium and thorium ores .....	0	—	0	—	0	—	0	—	0	—	0	8.6	0	—	0	—
Silver, unwrought .....	0	—	0	11.8	3	0.6	0	—	0	19.3	0	0.1	0	0.5	0	—
Platinum, unwrought .....	0	0.1	0	—	0	—	0	—	0	—	0	0.1	0	—	0	—
Copper, unwrought .....	s5	181.7	0	234.7	0	7.6	0	136.6	0	154.8	0	51.9	0	80.2	0	1.3
Copper, wrought .....	s7	0.6	15	—	20	—	7	—	9	—	12	0.4	12	0.2	10	—
Nickel, unwrought .....	2	—	0	—	0	—	0	—	0	—	0	—	0	—	0	—
Nickel, wrought .....	12	—	20	0.1	20	—	7	—	8	—	12	—	10	—	7	—
Aluminium, unwrought .....	s6	0.4	0	—	10	—	3	0.1	10	0.3	10	20.8	21	0.1	3	—
Aluminium, wrought .....	s7	—	20	—	20	—	8	—	14	—	16	—	23	0.1	8	—
Lead, unwrought .....	s4	17.7	1	1.1	10	0.2	s2	1.0	s2	2.7	s9	6.5	10	3.9	s2	2.9
Lead, wrought .....	s13	—	20	—	20	—	6	—	10	—	14	—	14	—	6	—
Zinc, unwrought .....	s7	6.9	8	2.3	10	0.1	0	2.2	s1	2.5	s9	0.4	8	1.5	s2	—
Zinc, wrought .....	s9	—	20	—	15	—	7	—	7	—	13	—	13	—	7	—
Tin, unwrought .....	0	94.7	0	19.4	5	27.8	0	2.0	0	16.9	0	15.5	0	12.3	0	1.0
Tin, wrought .....	35	—	20	—	10	—	5	—	4	—	8	—	8	—	5	—
Magnesium, beryllium .....	17	0.1	10	—	15	—	6	—	8	—	13	—	11	—	6	—

Tungsten, molybdenum .....	10	—	0	—	10	—	3	—	5	—	15	—	24	—	3	—
Base metals, other .....	10	6.3	0	5.4	10	2.9	0	24.9	2	0.1	8	0.6	7	0.1	2	—
Petroleum, crude .....	s3	850.6	0	1,022.2	s11	578.6	0	158.0	0 <sup>a</sup>	568.7	0	714.0	0	516.1	0	399.9
Motor spirit .....	s15	8.2	s16 <sup>c</sup>	61.3	s21	4.4	4	1.8	72 <sup>c</sup>	11.3	5	17.0	16	3.2	4	0.9
Kerosene .....	s4	55.0	s17 <sup>c</sup>	36.1	s19	2.9	0	—	87 <sup>c</sup>	4.0	5	0.1	16	—	0	1.8
Distillate fuels .....	s3	17.6	s33 <sup>c</sup>	47.7	s11	0.3	5	9.7	86 <sup>c</sup>	77.3	2	14.5	12	0.1	5	10.8
Residual fuels .....	s3	554.1	s33 <sup>c</sup>	77.3	s11	89.6	5	4.7	86 <sup>c</sup>	12.9	2	4.5	12	15.7	5	29.8
Lubricating oils, greases .....	s7	—	15	14.2	20	2.6	0	—	18	2.2	9	—	14	0.9	0	2.0
Mineral jellies, waxes .....	0	0.1	9	22.9	10	—	0	0.2	23	0.1	5	1.1	14	1.0	0	0.1
Coal .....	s17	—	0	—	0	6.1	0	0.3	0	—	0	1.2	0	0.1	0	0.2
Gas .....	0	8.4	8	—	5	4.3	0	—	0	—	0	0.4	4	—	0	—

Source: Bureau of General Economic Research and Policies of the United Nations Secretariat, based on national trade statistics and the tariff sources cited in table 5B-5.

<sup>a</sup> The rate indicated is, in each case, the one judged to apply to the bulk of the commodity flow from the developing countries. Where imports came from both preferred and other sources, the rate represents a weighted average of the preferential and general tariff. All rates have been rounded to the nearest integer. When the original rate was in a specific form, its *ad valorem* equivalent has been calculated on the basis of the average unit value of imports in 1962.

Imports are valued c.i.f. in all cases except the United States, where an f.o.b. valuation is recorded. As the customs tariff is not always clearly distinguishable from other forms of excise tax, especially where the commodity in question is entirely imported, this table should be read in conjunction with table 5-8 in the text.

<sup>b</sup> Suspended in 1962.

<sup>c</sup> These duties have been regarded as fiscal charges in the analysis of revenue collections.

<sup>d</sup> Effective January 1964; in 1962-1963 the rate was 116 per cent.

Table 5B-7. Primary Commodities: Non-Tariff Trade Barriers in Major Industrial Countries, 1963

Commodity	United States		United Kingdom		Japan		Belgium-Luxembourg		Federal Republic of Germany		France		Italy		Netherlands	
	A	B	A	B	A	B	A	B	A	B	A	B	A	B	A	B
Live animals .....	r	—	—	—	r	—	r	—	r	—	r	—	r	—	r	—
Beef and veal .....	—	—	—	Sd	Q,M	—	l	S	Q,M	O	Q	S	Q	—	R	O
Mutton and lamb .....	—	—	—	Sd	M	—	L	—	Q,M	O	Q	O	Q	—	R	—
Other dried meat .....	—	—	—	—	r	—	r	—	R	—	R	—	r	—	—	—
Butter and cheese .....	q	Se	Q	—	R	—	M	Se	Q	O	R	Se	R	—	—	Se
Eggs .....	—	—	—	—	—	—	—	—	r	—	—	—	—	—	—	—
Milk .....	R	S	R	Sd	R	S	R	S	R	O	R	S	R	—	R	S
Fish .....	r	—	—	—	r	—	r	—	q	—	q	—	—	—	r	—
Wheat .....	Q	Se	—	Sd	M	S	R	S	R,M	S	M	S	M	S	R	S
Rice .....	R	Se	—	—	M	S	L	—	L,M	—	M	S	R	S	—	—
Barley .....	—	Se	R	Sd	M	S	—	S	M	S	M	S	M	O	—	S
Maize .....	—	S	—	—	—	—	—	—	R,M	S	M	S	M	O	—	S
Wheat flour .....	R	—	—	—	R	—	—	—	—	—	—	—	—	—	r	—
Non-wheat flour .....	—	—	—	—	r	—	—	—	—	—	R	—	—	—	r	—
Citrus fruit .....	R	—	r	—	R	—	—	—	—	—	—	—	R	—	—	—
Bananas .....	—	—	R	—	—	—	—	—	—	—	R	—	M	—	—	—
Apples .....	—	—	r	—	R	—	r	—	r	—	r	—	—	—	—	—
Grapes .....	—	—	—	—	r	—	—	—	—	—	—	—	R	—	—	—





Fuel wood .....	—	—	—	—	r	—	—	—	—	—	—	—	—	—	—	—	—	—	—
Wood, non-coniferous .....	—	—	—	—	r	—	—	—	—	—	—	—	—	—	—	—	—	—	—
Timber .....	—	—	—	—	r	—	—	—	—	—	—	—	—	—	—	—	—	—	—
Cork .....	—	—	—	—	—	—	—	—	—	—	—	—	R	—	—	—	—	—	—
Seeds .....	—	—	—	—	—	—	—	—	r	—	—	—	—	—	—	—	—	—	—
Bulbs, trees .....	—	—	—	—	—	—	—	—	r	—	R	—	—	—	—	—	—	—	—
Cut flowers .....	—	—	—	—	—	—	R	—	R	—	R	—	—	—	—	—	—	—	—
Phosphates, natural .....	—	—	—	—	r	—	—	—	—	—	—	—	—	—	—	—	—	—	—
Sulphur .....	—	—	—	—	R	—	—	—	—	—	—	—	R	—	—	—	—	—	—
Iron pyrites .....	—	—	—	—	R	—	—	—	—	—	—	—	—	—	—	—	—	—	—
Asphalt and bitumen .....	—	—	—	—	—	—	—	—	—	—	r	—	—	—	—	—	—	—	—
Salt .....	—	—	—	—	R	—	—	—	—	—	—	—	—	—	—	—	—	—	—
Slag .....	—	—	—	—	r	—	—	—	—	—	—	—	—	—	—	—	—	—	—
Iron ore .....	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—
Ferro-manganese .....	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—
Ferro-chrome .....	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—
Aluminium .....	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—
Bauxite .....	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—
Tin metal .....	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—
Copper ore .....	—	—	—	—	—	S	—	—	—	—	—	—	—	—	—	—	—	—	—
Lead ore .....	Q	—	—	—	—	—	—	—	—	S	—	—	—	—	—	—	—	—	—
Zinc ore .....	Q	—	—	—	—	—	—	—	—	S	—	—	—	—	—	—	—	—	—
Tin ore .....	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—
Uranium and thorium ores .....	—	—	—	—	R	—	—	—	—	—	—	—	—	—	—	—	—	—	—
Copper, unwrought .....	—	—	—	—	—	S	—	—	—	—	—	—	—	—	—	—	—	—	—
Copper, wrought .....	—	—	—	—	—	S	—	—	—	—	—	—	—	—	—	—	—	—	—
Lead, unwrought .....	Q	—	—	—	R	—	—	—	—	—	—	—	—	—	—	—	—	—	—
Lead, wrought .....	—	—	—	—	r	—	—	—	—	—	—	—	—	—	—	—	—	—	—
Zinc, unwrought .....	Q	—	—	—	R	—	—	—	—	—	—	—	—	—	—	—	—	—	—
Zinc, wrought .....	—	—	—	—	R	—	—	—	—	—	—	—	—	—	—	—	—	—	—
Petroleum, crude .....	Q	—	—	—	—	—	—	—	—	S	r	—	—	—	—	—	—	—	—
Petroleum products .....	R	—	—	—	R	—	—	—	—	—	r	—	—	—	—	—	—	—	—
Coal .....	—	—	R	—	R	—	R	—	R	—	R	—	—	—	—	—	R	—	—
Gases .....	—	—	—	—	—	—	—	—	—	—	R	—	—	—	—	—	—	—	—

Source: Bureau of General Economic Research and Policies of the United Nations Secretariat, based on information communicated to the Contracting Parties to the General Agreement on Tariffs and Trade; by the Organisation for European Economic Co-operation, *Reports on Agricultural Policies in Europe and North America* (first to fifth report); and commodity reviews of the Commonwealth Economic Committee; Joint Economic Committee of the United States Congress, *The United States Balance of Payments—Perspective and Policies* (Washington, D.C., 1963).

Note: Non-tariff barriers are so diverse and complex and so subject to rapid administrative alteration that a table of this nature can do no more than give the broadest indication of the type of measure in operation at the time of compilation. In the countries of the European Economic Community, national restraints at the frontier against imports of cereals from third countries have been replaced by a system of import certificates and variable levies. As arrangements under the common agricultural policy are finalized and implemented, other

national restraints are to be replaced by Community control measures, most notably variable levies.

Column A shows the general nature of the restraint, a small letter indicating that the measure is applicable to only part of the item in question:

L, l — licensing requirements

M, m — state trading or trading by an authorized monopoly

Q, q — quota restrictions

R, r — indeterminate forms of quantitative restraint, including mixing regulations.

Column B indicates the general nature of explicit official intervention on domestic markets, not including direct or indirect subsidies of inputs of or fiscal privileges accorded to the primary sector:

O — organization of the domestic market without official price fixation

S — supported price; Sd — price guaranteed by deficiency payment;

Se — support accompanied by provision for export subsidy.

Table 5B-8. Primary Commodity Imports into Major Industrial Countries from the Developing Countries: Value in 1962, and Nature of Tariff Impediment

Commodity <sup>a</sup>	Imports into major industrial countries <sup>b</sup> from developing countries <sup>c</sup>		Countries in which imports are subject to <sup>d</sup>			
	Value <sup>e</sup> (millions of dollars)	Percentage <sup>f</sup>	Revenue duties <sup>g</sup>	Fiscal taxes <sup>h</sup>	Protective tariffs <sup>i</sup>	Quantitative controls <sup>j</sup>
Copra .....	150	99	F(K)	(B)S		F
Sodium nitrate, natural.....	20	99				
Coffee .....	1,536	99	B.F.G.I.J.(K)	F.G.I.J.		F(J)
Palm kernels .....	78	99	F(K)	(B)S		
Abaca .....	26	98	I			
Rubber, natural .....	692	98	(B)(K)			
Jute .....	143	98	I			
Cotton-seed .....	29	97		(B)	(I)S	
Bananas .....	311	96	(B)(F)(G)(I)J(K)			F.I.K.
Castor oil-seed .....	17	95	F.I(K)S.	(B)		B
Tea .....	397	94	B.F.G.I.J.(K)	F.G.		(J)
Ground-nut oil .....	61	93	G.J.S.	(B)	B.F.I.(K)	G.J.S.
Petroleum, crude <sup>k</sup> .....	4,808	93	(F)J.S.	(B.F.G.I.J.K.S) <sup>1</sup>	(I)	(F)S
Ground-nuts .....	183	93	I.J.(K)S.	(B)		F.J.S.
Agaves .....	87	93				
Bauxite .....	146	87			S	
Pepper and pimiento.....	31	86	B.F.I.		(G)(J)(K)(S)	F
Tin ore .....	72	86				
Cocoa .....	400	85	(B)(F)G(I)J(K)(S)	B.F.I.		(J)
Ramie .....	2	85	I			J
Molasses .....	60	84	F.G.I.J.	B.J.K.S.	B.K.S.	F.G(I)J.
Palm oil .....	67	84	(B)(F)(G)(I)J(K)	(B)S		F.G.
Sugar, raw, refined.....	738	81	(F)G.I.J.S.	B.G.I.J.K.S.	B.K.	F.G.I.J.S.
Gums and resins, natural.....	48	80	(B)(F)(G)(I)(J)(K)			
Castor oil .....	20	80	B.F(G)	(B)	I.J.(K)S	B.F.G.
Coconut oil .....	39	79	G.F.	(B)F.S.	B.I.J.(K)(S)	F.G.
Linseed oil .....	37	78	(F)G.I.	(B)	B.J.K.S.	F.G.I.
Tin, unwrought .....	189	77			J	
Spices, other .....	29	76	(B)F.I(G)		(J)(K)(S)	F
Manganese ore .....	103	74			S	
Fish meal .....	114	65	G		B.F.I(K)	G.J.
Phosphates, natural .....	102	65				(J)
Cotton .....	789	61	S(K)		I	S
Copper, unwrought .....	850	61	(F)(I)		(J)(K)(S)	
Plants, pharmaceutical .....	22	59	F.G.I.			
Copper, ore .....	72	58			S	
Quartz, mica .....	35	58			(B)(F)(G)(I)(K)(S)	
Honey .....	12	57			B.F.G.I.K.S.	

Vegetable dye and tannin.....	4	57			(I) (K)	
Plaiting material .....	9	56	(B) (G) (I) (J) (K)			
Brans and pollard.....	53	55			(B) F.G.I.(K) S	G.F.
Palm kernel oil.....	9	55	(F) G	(B) S	B.I.J.K.S.	J
Oil-seed cake .....	215	54	(J)		I(K) S	F.G.I.J.S.
Rice .....	58	52	(F) (G) (I) J(K) S			J
Wood, rough .....	370	49	(J)		(B) (F) (G) (I) (K)	
Iron ore .....	691	49				
Wine .....	270	49	(F) G.J.K.	B.F.G.I.K.S.	B.I.S.	F.G.J.
Petroleum products <sup>k</sup> .....	1,240	46	F.J.S.	(B.F.G.J.I.K.S.) <sup>1</sup>	B.I.	(F) J.S.
Zinc ore .....	44	46	S			S
Crude organic fertilizer.....	1	44	(K)			
Lead ore .....	28	43	S		I	S
Lumber, non-coniferous .....	74	43	(J) (K)		(B) (F) (G) I(S)	(J)
Asphalt and bitumen, natural.....	3	42	(F) (K)			(F)
Oranges and tangerines.....	154	40	B(F) G.I.J.(K) S			I.J.S.
Beans, peas, fresh.....	39	37	F.G.		B.I.J.(K) S	F.G.
Salt .....	18	35	B		(F) (G) (I) (K) S	J
Sulphur .....	23	35	J(G)			I.J.
Olive oil .....	35	35	B.F.G.(K)	(B) F	I(S)	(B) F.G.
Edible nuts .....	82	34	F.S.		B.G.I.J(K)	(F) (S)
Hides and skins.....	142	30			(I) (K) (S)	
Tobacco <sup>k</sup> .....	209	30	B(F) G.J.	B.F.G.I.J.K.S.	S	F.G.I.J.
Tomatoes, fresh .....	48	29	F.G.		B.I.J.(K) S	F.G.
Lead, unwrought .....	36	29	J(S)		B.F.G.I(K)	J.S.
Organic oils, fats, waxes, processed	16	28	G		B.F.G.I.J(K) S	(G)
Oats and other cereals.....	15	27			F.I(K) S	
Potatoes, fresh .....	50	26	F.G.S.		B.I.J.(K)	F.G(S)
Iron pyrites .....	12	26				J
Diamonds, industrial .....	23	25	J(K)			I.J(K) S
Citrus fruit, other .....	18	25	B(F) G.I.J.(K) S			(B) (F) (G) (J)
Fish .....	139	23	(B) F(G) (J)		I(K) (S)	
Maize .....	171	20	(F) (I) (K)		J.S.	F.G.I.
Oils, marine .....	12	19	(G) (I)		(B) (F) (J) (K) (S)	(G)
Nickel ore .....	27	19				
Hemp .....	2	19	S			
Meat, fresh, chilled, frozen.....	219	19	(B) F.G.I.J.		(K) S	(B) F.G(I) (J)
Cork .....	4	18	B.F(G) I(J) (K) (S)			I
Fur skins, undressed.....	54	18	(J) (K)			
Fresh vegetables, other.....	51	17	B.F.G.		I.J.(K) S	B.F.G.
Barley .....	34	17	F(I) J		(K) S	F.G.I.J.
Wool, greasy and degreased.....	233	15	(G)		S	
Zinc, unwrought .....	16	14	J.S.		(B) F.G.I(K)	J.S.
Silver and platinum.....	32	14	(K)		(I) (J)	
Wheat .....	142	14	F(I) J.S.			B.F.G.I.J.S.
Linseed .....	7	12	(F) (K)	(B)	S	F.I.
Dried fruit .....	16	12	B.F.I.J.		G(K) S	(F) (I) (J)

Table 5B-8 (continued)

Commodity <sup>a</sup>	Imports into major industrial countries <sup>b</sup> from developing countries <sup>c</sup>		Countries in which imports are subject to <sup>d</sup>			
	Value <sup>e</sup> (millions of dollars)	Percentage <sup>f</sup>	Revenue duties <sup>g</sup>	Fiscal taxes <sup>h</sup>	Protective tariffs <sup>i</sup>	Quantitative controls <sup>j</sup>
Apples, fresh .....	17	11	B.F.G.J(K)		I.S.	B(F)(G)J(K)
Live animals .....	62	11	(B)(F)(G)(I)(J)S		(K)	(B)(F)(G)(I)(J)(S)
Wool, processed .....	20	10			B.F.G.I.K.S.	
Sunflower-seed oil .....	2	11	G	(B)	B.F.I.J(K)S	(G)
Gas .....	13	10	(F)		I.J(K)	F
Wheat flour .....	2	10	J.S.		G.F.I(K)	(B)J.S.
Asbestos .....	13	9	(K)			
Refractory minerals .....	10	9			(B)(F)(G)(I)(J)(K)(S)	
Fuel wood .....	2	8			(B)(F)(G)(I)(K)	(J)
Silk .....	5	7	(B)(F)(G)(I)		(J)	
Cotton-seed oil .....	1	6	G.J.	(B)	B.F.I.K.S.	(G)(J)
Railway sleepers, wooden .....	1	6	B(K)		F.G.I.	
Eggs .....	12	6	G		B.F.I.J(K)S	(G)
Iron and steel scrap .....	24	6			S	
Slag, dross, ash .....	1	6	(B)(F)			(J)
Abrasives, natural .....	3	6	(B)(F)(G)(K)		I(J)(S)	
Seeds for planting .....	4	6	G		(B)(F)(I)(J)(K)(S)	(G)
Silver and platinum ores .....	4	6				
Non-wheat flour .....	—	6	J		F.G.I(K)S	(B)F(J)
Ferro-manganese .....	3	6			F(G)I.J(K)S	F
Grapes, fresh .....	4	5	B.I.J(K)		F.G.S.	I(J)
Stone .....	6	5			(B)(F)(G)(I)(J)(K)(S)	
Hay and fodder .....	1	5			(B)(F)(G)(I)(K)S	
Aluminium, unwrought .....	22	5			B.F.G.I.J(K)S	
Uranium and thorium ores .....	9	3				J
Lumber, coniferous .....	36	3	(K)		(B)(F)G(I)(J)(S)	
Flax .....	2	3			S	(B)(J)
Vegetables, frozen .....	1	3	F		B.G.I.J(K)S	F(J)
Soya bean oil .....	1	3	F.G.I.J.S.	(B)	B.I(K)	F.G.I.J.S.
Soya beans .....	9	2	J(K)S	(B)I		J.F.S.
Butter .....	8	2	B.F.G.I.J(K)S			B.F.G.I.J.K.S.
Rye .....	1	2	(I)J(K)		F.S.	
Meat, dried, smoked .....	3	1	B.F.G.I.J.		(K)S	(B)F.G(I)(J)
Bulb and live plants .....	1	1	(F)(G)		(B)I(K)S	F(G)
Cut flowers and foliage .....	—	1	(B)F.G.		I.J(K)S	B.F.G.
Coal, coke .....	8	1	(B)(F)(G)(J)(K)		(I)S	B.F.G.J.K.
Cheese .....	2	1	B.F.G.I.J(K)S			(B)F.G.I.J(K)(S)

Copper, wrought .....	1	1		(B)F(G)I.J.K(S)	
Aluminium, wrought .....	—	1		B.F.G.I.J(K)S	
Animal oils, fats, inedible .....	—	—	(G)	(B) (F) (I) J(K)S	(G)
Wood-pulp .....	3	—	(B)	(F) (G) (I) J	
Lard, edible .....	—	—	G	F.I.J.	(B) (G)
Nickel .....	—	—		(B) (F) (G) (I) (J) (K) (S)	
Margarine .....	—	—	B.G.J.	F.I(K)S	B.G.J.
Milk .....	—	—	B.F.G.I(K)S		(B)F.G.I.J(K)S
Lead, wrought .....	—	—	J	B.F.G.I.K.S.	(J)
Zinc, wrought .....	—	—	J	B.F.G.I.K(S)	(J)
Rubber, synthetic .....	—	—		(B) (F) (G) (I) (J) K.S	

Source: Bureau of General Economic Research and Policies of the United Nations Secretariat, based on table 5-9 and appendix tables 5B-3, 5B-5 and 5B-7.

<sup>a</sup> Listed in descending order of the relative contribution of developing countries to the imports of industrial countries. Certain miscellaneous SITC categories have been omitted. Residual categories, such as "Spices, other", are defined in "Commodity notes" to table 5B-3.

<sup>b</sup> Belgium-Luxembourg-Netherlands (B), Federal Republic of Germany (G), France (F), Italy (I), Japan (J), United Kingdom (K) and United States (S).

<sup>c</sup> Latin America, Africa (except South Africa) and Asia (except Japan, Turkey and the centrally planned countries).

<sup>d</sup> Commercial policy measures governing imports into the major industrial countries. Where some portion of imports is admitted free of duty or quota—whether a component of the specified commodity category or the supply from a preferred source—the country symbol has been placed in parentheses.

<sup>e</sup> Measured c.i.f. in all cases except the United States, where valuation is f.o.b.

<sup>f</sup> For each commodity, the percentage of the imports of industrial countries coming from developing countries.

<sup>g</sup> A tariff is deemed to be of a revenue nature where there is no significant domestic production of the commodity or when imports are subject to quantitative control.

<sup>h</sup> Charges levied by the Central Government on commodities entirely or very largely imported. Local taxes and all sales, transmission and equalization taxes of a general nature have been disregarded.

<sup>i</sup> A tariff is deemed to be protective when the importing country itself produces a significant amount of the commodity in question and imports are not subject to quantitative control.

<sup>j</sup> Including any significant form of overt non-tariff barrier, even if raised in the interest of preferred partner countries, but excluding the subsidization of domestic production.

<sup>k</sup> Taxes on imports of petroleum into the Federal Republic of Germany and of tobacco and petroleum products into the United Kingdom have been classified as fiscal charges.

<sup>l</sup> Imputed share of excise taxes on petroleum products borne by imported petroleum, crude and products.

## Chapter 6

# STABILIZATION OF INTERNATIONAL COMMODITY MARKETS

### Stabilization: The role of international agreements

Primary commodity markets are characteristically unstable for reasons that are largely inherent in the production process. Supply is seldom a smooth flow and it is often difficult to regulate: it generally comes from large numbers of relatively small producers; it represents the results of investment or planting decisions taken much earlier, sometimes years before, and it is frequently affected in an unpredictable manner by the forces of nature. On the demand side there are also certain features which make for market instability. Some commodities move predominantly into end uses—particularly in the capital goods sector—demand for which is itself subject to considerable short-term fluctuations. Other commodities are particularly exposed to the possibilities of substitution, for price or technical reasons, and this serves to multiply the number of potentially destabilizing forces influencing demand. And, paradoxically, the fact that demand for many commodities is notably rigid and not amenable to modification through price incentives or deterrents also tends to magnify the instability of the market.

On the domestic scene—especially in the industrial countries—efforts to stabilize primary commodity markets have resulted over the years in a vast array of machinery, originally designed in most instances to smooth out the effect on supply of short-term fluctuations in production, but used increasingly to sustain price levels fixed in accordance with certain income objectives for the producers of the commodities in question. In varying degree—depending on the extent to which the country is self-sufficient in the particular commodity—this machinery has been adapted to accommodate imported supplies as well. Where the internal stabilization machinery has become the means of administering a system of price supports, the instability that may previously have characterized the domestic market tends to be transferred to the world market: shortfalls in supply are made good from it and excesses in supply may be offloaded on to it. The higher the proportion of world production disposed of domestically on stabilized national markets the narrower are such residual world markets likely

to be. And the narrower they are the greater will be the impact of fluctuations in demand and supply.

International commodity markets are thus subject not only to the various influences which tend to induce rapid and wide movements in the prices of primary products but also the potentially destabilizing side effects that flow from the use, by insulated individual countries, of the world market as a safety valve for their own support or stabilization operations.

Fluctuations on international commodity markets have been somewhat less frequent and less severe in the post-war years than they were in the inter-war period. The principal reason for this lies in the better performance of aggregate demand in the major consuming countries: there have been dips in particular countries but by pre-war standards they have been mild and often mutually offsetting—as between North America and western Europe, for example—rather than simultaneous and cumulative. In some commodities, moreover, the willingness of major producers to hold stocks has tended to protect the world market from the consequences of large changes in output. Technical improvements in market organization and technological advances in transport, handling, storage, refrigeration and similar facilities have also led to smoother and more efficient flow of commodities from producer to consumer. Greater and better disseminated knowledge of relevant data regarding production, consumption and trade may also have helped, by reducing the number and scope of irrational—and market-destabilizing—decisions by producers and traders.

This gain in stability has been achieved in the face of a number of particularly disruptive influences. Some of these grew out of the adjustments that occurred in the course of early post-war recovery as traditional sources of supply sought to re-establish their positions on world markets that had been upset by the hostilities and their aftermath. Others were occasioned by various political events with international impact which caused violent, if temporary, reactions on the world market; these affected many primary commodities in the case of the Korean

conflict in the period 1950-1952, but only a few specific items in the case of the Suez crisis in 1956/57 and the Cuban crisis in 1961/62. Associated in varying degree with these events were changes in demand for commodities absorbed by defence industries, both for current use and for strategic stockpiling. The effect of the increase in this demand in the early nineteen fifties was not confined to the immediate short-term price rise; it also induced investment—particularly in mineral production and smelting facilities—and in many instances this bore fruit later in the decade at a time when consumption was increasing much less rapidly and stock accumulation had virtually ceased. This, in turn, was reflected in unbalanced markets and price declines for many commodities.

While growth of demand and a number of crop failures had restored the balance in many world markets by 1963, the nineteen fifties had left a legacy of extraordinary stocks, some the product of domestic stabilization schemes, some the outcome of efforts to hold up prices on the world market, some the accumulations made for strategic reasons that had subsequently been revised. These stocks, representing a wide range of commodities of importance in world trade, constitute a new factor in the situation with major implications for any international action that might be taken to stabilize particular commodity markets.

Stabilization measures may be general or specific. Action of a general nature, usually taken at the national level, involves the major determinants of demand and supply. Policies aimed at ensuring a steady rate of economic growth in the industrial countries exercise an important, if incidental, effect on the stability of demand for various primary commodities. Similarly, steps to control the forces of nature (weather, pests and disease, for example) or to improve institutional arrangements (labour-management relations on plantation or mine, for example) all help to prevent sudden disruptions in supply of primary commodities.

While improvement in the “environment” induced by general measures of this nature has doubtless been one of the principal factors contributing to the over-all reduction in instability in primary commodity markets between the inter-war and post-war periods, the main focus of the present paper is on specific measures. These have generally been concerned with regulating supply; outside the rationing régimes that characterized the war-time and post-war markets, demand for primary commodities has seldom been the object of any direct stabilization action. Demand on the world market, however, has frequently been affected by stabilization measures enacted at the national level. In a net-importing country, as indicated above, stability on the internal market is

often ensured by adjusting imports to compensate for fluctuations in domestic production. The higher the price at which the internal market is stabilized the less stable is domestic production likely to prove, particularly in agriculture in which the output of the marginal acre tends to be much less reliable than that of the better endowed or better situated land. High price supports in the industrial countries are thus apt to result in particularly erratic demand on the world market.

For many commodities, thus, fluctuations in demand on the world market are caused principally by fluctuations in production in net-importing countries. But where international action has been taken to reduce the instability of the world market, it has usually been directed at the supply coming on to the market, that is, at production and stockholding in net-exporting countries.

In some ways this reflects the history of stabilization efforts. Traditionally, they were largely the response of exporters to declining prices: they involved joint action—usually the curtailment of supply—designed to restore the price on the world market to some earlier, more “equitable” level. In the main, such efforts were at first confined to producers, and the result was often an *ad hoc* cartel arrangement parcelling out the market among participants. Increasingly, however, governments became involved, often because restrictive practices could not be enforced without official backing but after 1930 because of the very magnitude of the problem. For, in the great depression the instability was not a question of sporadic declines of particular prices, but of a massive reduction all along the line, with severe repercussions on foreign exchange earnings and employment in all primary exporting countries.

Inter-governmental co-operation in export control schemes evolved during the nineteen thirties was extended under the very different circumstances of the war. Because the problem had become one of scarcity rather than over-abundance and of curbing demand rather than curbing supply, the range of co-operation was greatly widened: importing countries tended to lead the stabilization drive and price controls and rationing were the almost universal rule.

The influence of these developments is discernible in the Havana Charter which emerged from the United Nations Conference on Trade and Employment in 1948. It was thought that the maintenance of full employment in the industrial countries would in itself remove some of the grounds that formerly existed for commodity stabilization arrangements. Nevertheless, the use of international agreements, including those involving stabilization of prices and control over supply, was endorsed if they conformed

to certain criteria. Perhaps most significant among these was the requirement that consumers (in effect, net-importing countries) participate on equal terms with producers (or net-exporting countries). The use of controls in conjunction with such agreements was visualized implicitly in terms of emergency, arising from gross or chronic imbalance between production and consumption.

This rather narrow view of the need for international machinery and its role on world markets contrasts sharply with the widespread practice of stabilizing national primary commodity markets by means of control and support machinery. Along with the new requirement that importing countries should be involved equally with exporting countries, this limiting view goes some way to account for the smallness in the number of agreements actually consummated since the war. Since agreements depend on the willingness of all or most of the countries "substantially interested" in the trade in the commodity concerned to negotiate on the form and details of a technically appropriate arrangement, their feasibility has reflected very largely on the prior degree of concentration or organization of the market. The commodities for which agreements have been concluded in the post-war period have thus for the most part been among those in which the industrial countries are major producers or investors: until the Coffee Agreement of 1962, they were limited to wheat, sugar, tin and olive oil.

With the exception of the arrangement for olive oil, which is not a "control agreement" within the terms of the Charter, all these agreements have sought to hold the world market price for the commodity concerned within prescribed limits. The principal method used for this purpose has been regulation of the amount of the commodity marketed in given periods; the instrument used has been the export quota, complemented by stock adjustments, carried out centrally in the case of tin, by participating exporters in the case of sugar and coffee. Operationally, the role of importers has been limited largely to the policing of the agreement so that control over the flow of supplies is not abrogated either by participating exporters exceeding their quotas or by non-participating producers trying to enter the stabilized market.

The Wheat Agreements have constituted exceptions to this form of organization. Stability has in this case been sought by imposing limiting obligations on importers as well as on exporters. The former have undertaken to buy minimum quantities at the lower level of the price range, the latter have undertaken to sell minimum quantities at the upper level. The stock adjustments necessary to accommodate crop fluctuations have not been formally provided for: they have been carried out by

the major exporting countries as part of their own domestic stabilization procedure.

The combination of export control and stock adjustment can hold the price within a desired range only if the basic trends in production and consumption are parallel and fluctuations are of a random nature. If the production and consumption trends diverge, the stabilizing stock will be subjected to a persistent movement, either inwards (if production is outrunning consumption) or outward (if production is lagging behind consumption), causing it either to be too costly to finance or to be depleted. Other instruments of control need to be at hand for use in these circumstances. In some cases it may prove possible to restrict production—by licensing of acreage, perhaps, or by fiscal disincentives—but recent history shows that control over production is difficult to attain, at least with the degree of precision as to volume and timing that would be desirable in a stabilization instrument. If a persistent movement indicates the need for some structural adjustment, this may have to be approached in a more positive manner, with governments actively assisting factors to move to more productive employment. This poses particularly difficult problems in under-developed countries in which alternative uses for resources may in the short run be very few and in the longer run require a good deal of complementary investment.

Apart from the general environmental factors referred to above, individual stabilization schemes tend to require forms of organization unique to the commodity concerned. Characteristics of production, marketing and end-use vary greatly from one commodity to another and it seems likely that the machinery for stabilization—if it is to be acceptable and workable—will have to continue to be adapted to all the intricacies and complexities of the situation, case by case. International arrangements, however, are made within a common framework—of attitude, principle and machinery—which may play an important part, not only in influencing the nature of particular schemes but even in determining whether any effort to stabilize is actually made.

The fact that it has been found necessary to create permanent stabilization machinery in the domestic markets of so many countries is itself evidence of a general recognition of the problem. There is no reason to suppose that the need for appropriate mechanisms is much less on international markets than on national markets. Indeed, in so far as the countries supplying the international market tend to have a low per capita income and to be extremely dependent on the proceeds of their commodity sales, the need for stability may be even greater. There is, thus, a strong *a priori* case for an approach to the



international problem that conforms to that adopted domestically, both in respect to machinery that might be devised for the international market and in respect to the relationship of national machinery to the wider market.

While it might therefore be argued that the Havana Charter needs to be up-dated in its view of international machinery as a matter of last resort to be installed only when disequilibrium has reached emergency proportions, its emphasis on the desirability of adequate coverage in such arrangements has been borne out by their history. The effectiveness of international action has been shown to vary closely with the extent of its acceptance. The inclusion within the framework of a stabilization scheme of not only all the significant producers of the commodity but also all the major consumers may complicate the task of arriving at a consensus on matters of principle and hammering out operating details, but it provides much greater certainty that the arrangements will in fact be translated into action and complied with. The sharing of responsibility for the smooth functioning of the world market also serves the useful purpose of spreading any real costs that may be involved in the adjustments necessary for maintaining equilibrium in a constantly changing situation.

Stabilization schemes, both national and international, have always chosen market price as the variable to be stabilized, even when the principal objective has been the stability of producers' incomes. If the nature of the market is not to be fundamentally altered—with a consequent loss of freedom by both sellers and buyers—such a choice is probably inevitable. It leaves price with its normal function of rationing supplies among consumers and guiding the output and investment decisions of producers.

Assuming that price is the variable that lends itself most logically to stabilization, however, the question remains: at what price should stability be sought? It is probably true that realism on the part of producers and the desire for a reliable and steady flow of supplies on the part of users have together tended to narrow the divergence in interest between the two sides. Nevertheless, ideas of "equitable price levels" continue to differ, not only between exporter and importer but also between high-cost producer and low-cost producer. Stabilization efforts have always to face the problem of selecting the most appropriate price range and the lessons of recent experience require careful study if the arrangements that are made are to serve the best long-run interests of all parties.

The instruments available for holding the price within the agreed range are rather limited, both in number and in precision. In normal times, they

tend to be much stronger on the supply side than on the demand side. The control has generally been most marked in the case of expansion: for many primary commodities even a substantial reduction in price—defeating the purpose of the stabilization scheme—may fail to evoke a significant increase in consumption. The expansion of demand is much more of a long-term matter, involving the upgrading of the qualities of the product in question and the discovery of new end-uses, and not readily usable as a means of maintaining market equilibrium in the face of an increase in production. A cut-back in consumption—by means other than a rise in price—might be easier to bring about though it would be a formidable task to accomplish equitably since, to be a useful means of stabilizing the market, it would have to be accomplished in all participating countries promptly and simultaneously. On the demand side, it is only the offtake for inventories that lends itself to relatively rapid adjustment. In general, therefore, the essential short-term instruments of control consist of stock adjustment and some supporting means of regulating supply.

Stock adjustment is the "natural" means of accommodating changes in production or consumption, and the effectiveness of stabilization machinery depends very largely on the adequacy and purposefulness of stock management. This raises economic, physical and financial questions which can be answered only in the context of a particular commodity market and in parallel with essentially similar questions in respect of the regulations of supply. For the management of a reservoir such as is constituted by world stocks of a given commodity is feasible only if the inflow can in the last resort be slowed down. The critical questions are thus those that concern the responsibility for and the financing of stocks and the supporting control over production.

Almost all stabilization schemes hitherto have left the financing of stocks to the producing country in which they happen to appear. If a global view is taken of the stabilization process, however, this is not necessarily the method likely to yield optimal results, either in equity or in resource allocation. For, the accumulation of stocks in a net-exporting country may conceivably not reflect changes in the commodity situation in that country so much as the production and price policies being pursued in the net-importing countries in which the exports might otherwise have been sold. The proper distribution of responsibility for financing and managing stocks and the concomitant incidence of whatever production restraints may prove necessary to keep the stock-holding within manageable dimensions are matters that need to be determined in the light of all the relevant factors operating in each stabilization

scheme. The experience of past arrangements affords little guidance in this area: there have been relatively few that lasted long enough to experiment with various types of control and most of them have been producer-oriented and based on the implicit assumption that it is the net-exporting countries that are required to make all the adjustments that the world market seems to require.

The most severe test of a stabilization arrangement stems from a persistent trend, particularly a downward pressure on price that continues too long, to be accommodated by the absorption of

supplies into stocks. In principle, international action should facilitate the structural adjustment that this might call for. A sharing of the costs of cut-back, for example, would make possible a more efficient pattern of adjustment—in terms of global resource allocation—than would occur if net-exporters were forced to bear the brunt of the change. In practice, however, international agreements flexible enough to meet the needs of an ever-changing production-consumption complex are one of the major challenges in the field of international economic co-operation.

### Instability: Recent dimensions

The instability of world markets for primary commodities is a general phenomenon: though there are significant differences in its incidence and magnitude, it is not confined to commodities of a particular nature or to the trade of particular countries. Thus, among the commodities whose price on world markets has been least stable in recent years are many which come, to only a relatively small extent, from the developing countries: tallow, lard, wool, zinc, lead and soya beans and oil all registered greater than average year-to-year price fluctuations in the period 1950-1961 and these commodities all come overwhelmingly (70 per cent or more) from sources other than the developing countries (*see* table 6-1). Conversely, several of the products which come very largely from the developing countries have had a relatively good record for stability in the post-war period—among them bauxite, crude petroleum, bananas and tea. Notwithstanding its narrow and volatile free market, sugar also showed more than average stability in respect of total trade, the quota and price fixing arrangements, operated by the United Kingdom and the United States in particular, helping to reduce quite noticeably the over-all average fluctuation in unit value and export volume.

Nevertheless, many of the commodities of which the developing countries are the sole or chief suppliers—including natural rubber, most of the fibres (particularly the non-apparel fibres), the palm products (particularly copra) and cocoa and coffee—have been among the least stable in terms of price movements. Of the thirteen commodities which experienced year-to-year price declines that were over-average in both size (6 per cent or over) and frequency (six or more occasions out of a possible eleven), seven belonged to this group—rubber, cocoa and coffee, sisal and abaca, copra and palm kernels. Of the remaining six, the developing countries were majority suppliers of one (cotton), minority suppliers of three (wool, lead and zinc) and negligible

suppliers of two (lard and soya beans and oil). Jute and cotton-seed—also items coming mostly from the developing countries—experienced over-average declines in price, as did linseed oil, olive oil and barley, but there were fewer of them. Tea, sugar and bananas—coming very largely from the developing countries—experienced an over-average number of declines but of rather smaller magnitude, and this was also the case with maize.

In the case of commodities entering world trade from the developing countries, fluctuations in volume are generally autonomous: they tend to represent changes in the supply rather than a response to changes in demand. Exceptions to this have been relatively few: the most significant ones have been associated with export quota and stock management arrangements for sugar (since 1955), tin (since 1957) and coffee (since 1958), and a number of rather more limited voluntary cut-backs in production or withholding of supplies undertaken by some producers of lead, zinc and copper (since 1959).

For exports from the developing countries, declines in volume between one year and the next thus tend to be the result of crop failures, labour strikes, irregularities reflecting the reaction of traders to exchange rate policies and taxation and other factors affecting production or shipment in a more or less independent fashion. Such declines have generally been smaller and less frequent than declines in price. The only commodities for which volume declines were not less than price declines during the period 1950-1961 were cotton-seed and ground-nuts, aluminium, lamb and wheat and of those only the first two come predominantly from the developing countries, supplies of cotton-seed being particularly affected by the weather in the Sudan and supplies of ground-nuts by the weather in Nigeria and Senegal. For a few items the average magnitude of decline was greater for volume than for price—lin-

Table 6-1. Primary Commodities: Relative Instability in Trade, 1950-1961

Commodity <sup>a</sup>	Percentage of imports of industrial countries coming from developing countries, <sup>b</sup> 1962	Year-to-year fluctuations, 1950-1961 <sup>c</sup>									Number of occasions <sup>d</sup> price and volume moved in same direction
		Export unit value <sup>d</sup>			Export volume <sup>e</sup>			Export proceeds <sup>f</sup>			
		Average fluctuations (percentage)	Declines		Average fluctuations (percentage)	Declines		Average fluctuations (percentage)	Declines		
			Average size (percentage)	Number		Average size (percentage)	Number		Average size (percentage)	Number	
Natural rubber	100	21	12	7	5	2	4	21	11	7	5
Cocoa	85	20	11	7	10	4	4	15	7	5	9
Linseed <sup>h</sup>	42	17	9	5	23	11	5	18	9	4	10
Tallow	—	17	9	5	13	3	3	16	5	3	8
Lard	—	17	9	7	13	5	4	20	9	6	5
Sisal	93	16	10	7	7	2	2	16	8	5	7
Zinc metal	13	16	9	6	6	1	3	16	8	5	5
Wool	15	16	9	6	11	5	4	15	7	3	6
Jute	98	15	7	5	10	7	8	15	8	5	7
Copra	94	15	8	7	10	5	4	12	7	5	8
Abaca	98	14	7	6	11	6	7	20	12	5	3
Lead metal	27	14	9	7	7	4	5	10	7	6	10
Cotton-seed <sup>h</sup>	56	14	7	5	26	12	6	25	11	5	7
Copper metal	53	13	5	4	8	1	3	16	4	4	7
Olive oil <sup>h</sup>	35	12	6	5	21	10	5	18	9	6	8
Palm kernels <sup>h</sup>	91	11	6	7	6	3	7	12	6	6	6
Soya beans <sup>h</sup>	2	11	6	6	24	7	2	24	7	3	6
Palm oil <sup>h</sup>	84	11	3	4	5	2	5	9	4	5	9
Cotton	61	11	6	6	10	4	5	14	7	6	5
Barley	17	10	6	5	15	4	5	20	8	6	7
Tin metal	75	10	4	5	8	5	4	10	5	5	7
Butter	2	10	5	4	7	2	4	12	6	6	6
Coffee	99	9	6	6	7	2	3	8	4	6	6
Beef and veal	19	9	3	4	11	3	3	11	—	2	7
Mutton and lamb		9	3	5	11	5	6	12	4	5	6
Pork		7	3	4	17	7	2	21	8	4	4
Maize	20	9	5	6	10	—	2	10	1	2	8
Rice	52	9	5	5	10	3	4	10	4	6	9
Ground-nuts <sup>h</sup>	93	8	4	5	10	4	5	10	3	5	6
Oranges <sup>i</sup>	40	7	4	5	9	2	2	8	1	3	7
Tea	94	7	3	6	8	3	5	11	3	5	5
Sugar	78	7	4	7	7	1	3	9	3	5	8
Aluminium	35	6	1	3	11	3	4	13	2	3	5
Synthetic rubber	—	5	4	6	20	1	3	18	—	2	7
Wheat	14	5	3	4	13	3	4	13	4	5	6
Bauxite	87	4	—	1	10	—	1	13	0	0	2

(table continued on following page)

Table 6-1 (continued)

Commodity <sup>a</sup>	Percentage of imports of industrial countries coming from developing countries, <sup>b</sup> 1962	Year-to-year fluctuations, 1950-1961 <sup>c</sup>									Number of occasions <sup>g</sup> price and volume moved in same direction
		Export unit value <sup>d</sup>			Export volume <sup>e</sup>			Export proceeds <sup>f</sup>			
		Average fluctuations (percentage)	Declines		Average fluctuations (percentage)	Declines		Average fluctuations (percentage)	Declines		
			Average size (percentage)	Number		Average size (percentage)	Number		Average size (percentage)	Number	
Bananas .....	96	3	2	6	5	—	1	5	1	2	7
Tobacco .....	30	3	1	3	7	2	3	8	2	3	4
Crude petroleum .....	93	3	1	5	10	0	0	9	0	0	5
Average, 39 items .....		11	6	5	11	4	4	14	5	4	7

Source: Bureau of General Economic Research and Policies of the United Nations Secretariat, based on United Nations, *Commodity Survey, 1962* (Sales No.: 63.II.D.1); "Access to Markets for Primary Commodities in the Industrial Countries" (United Nations mimeographed document E/CONF.46/7).

<sup>a</sup> Arrayed in descending order of average 1950-1961 year-to-year change in export unit value.

<sup>b</sup> Industrial countries consist of North America, western Europe and Japan; developing countries, of Latin America, Africa (other than the Republic of South Africa) and Asia (other than mainland China, Japan and Turkey).

<sup>c</sup> In computing year-to-year changes, the higher figure has always been used as denominator irrespective of whether it was the earlier or later year: trend has not been eliminated.

<sup>d</sup> In United States dollars. For agricultural products, the world average cited in Food and Agriculture Organization of the United Nations, *The State of Food and Agriculture* (Rome) has been used. For metals, the unit value is based

on an average of prices in principal importing markets. For petroleum, the unit value is based on an average of posted prices in the Middle East and the Caribbean.

<sup>e</sup> World exports except that in the case of mutton and lamb, aluminium, bauxite, copper, lead, tin and zinc, exports from centrally planned economies have not been included; in the case of petroleum, mainland China's exports have not been included and those of the Soviet Union have been included only from 1955; exports of beef and veal from mainland China and the Soviet Union have not been included; exports of wheat and tobacco from mainland China have not been included. Exports are measured gross, not distinguishing re-exports except in the case of coffee, cocoa, tea and rubber.

<sup>f</sup> Exports proceeds estimated by multiplying export unit values, as defined in foot-note *d*, by the export volume as defined in foot-note *c*.

<sup>g</sup> Out of a possible eleven.

<sup>h</sup> Including oil; seed measured as oil equivalent.

<sup>i</sup> Including tangerines.

seed oil, olive oil, soya beans, pork and tin, of which only the last comes mainly from the developing countries: in this case, stabilization action in 1958 and 1959 aimed at sustaining price by restricting exports. However, of the five commodities trade in which declined more frequently in volume than in price—jute and abaca, cotton-seed and palm oil and aluminium—all are items coming from a small number of countries: a single developing country is the predominant source of each of the first three and in each case production has been subject to considerable fluctuations.

Partly as a result of the frequency of supply fluctuations, movements in price tended to be in the opposite direction to movements in volume more often than in the same direction: the most common pattern of year-to-year change between 1950 and 1961—particularly in the second half of the period—was an increase in exports and a reduction in the price at which they were absorbed. On the whole, therefore, fluctuations in proceeds were somewhat less marked than fluctuations in either price or volume, at least for total trade in each primary commodity, though not necessarily for each individual exporting country.

Where changes in demand constituted the more dynamic influence, on the other hand—whether because of a stronger trend element or of a dominant but fluctuating end-use or of the effect of output variations in net-importing countries—the movement in price tended to conform more often with the movement in trade. This was the case for a number of

fuels and raw materials (petroleum, bauxite and aluminium and zinc, abaca, cotton and wool and rubber), some of the inter-substitutable fats and oils (palm kernels, soya beans and ground-nuts) and some of the temperate farm products for which demand on the world market is the inverse of domestic production (wheat, lard and butter, pork and mutton), as well as for coffee, tea and tobacco.

Notwithstanding the tendency for changes in volumes to moderate the effect of changes in price, the total value of trade showed considerable instability for many commodities. Among the items coming mostly from developing countries the average year-to-year fluctuations in proceeds were highest for abaca, rubber, cotton-seed, sisal and jute, though they were above the over-all average of about 5 per cent in a number of other cases, including cocoa, copra, palm kernels and cotton. The combined effect of these wide swings in export values and the high degree of concentration on a few export products is to make the export proceeds of the primary exporting countries characteristically unstable. Measured as a ratio of deviation from a three-year moving average, the instability of export proceeds between 1953 and 1960 was no less than four times as high for the primary exporting countries as for the industrial countries.<sup>1</sup> It is against this statistical background that the need for international stabilization measures has to be assessed.

<sup>1</sup> See United Nations, "Stabilization of Export Proceeds through a Development Insurance Fund" (mimeographed document E/CN.13/43), table 11, for country details.

### International action: A brief historical review

The history of international action in the primary commodity field is a long one. Attempts to regularize production and sales of some commodities were made in the late nineteenth century and, as transport facilities improved, markets widened and economic interdependence increased, the number of such arrangements tended to rise. But the main proliferation came after the First World War as a reaction initially to the violent fluctuations of the early post-war years and then to the depression of the nineteen thirties.

By and large, the action of the inter-war period was taken by producers in defence of prices or markets. In the first instances, the schemes were in the nature of producer cartels: by means of restrictions on production and a dividing up of the market they sought to sustain or restore prices. Whatever success was achieved was seldom very durable: almost invariably production proved difficult to control even among participants, while in some

cases the effect of cut-backs by participants was nullified by expansion in the output of non-members or of new producers. The more closely the arrangement approximated to a producer cartel the more likely was consumer or importer resistance to take the form of transactions with non-participants which often had the effect of undermining the price structure the arrangement was designed to sustain.

This reinforced two tendencies—one towards the closer identification of governments with the schemes and the other towards consultation with or even more direct involvement of consuming or importing interests—both aiming at raising the status and facilitating the enforcement of the commodity arrangement. The movement towards official involvement by the governments of exporting countries also reflects their mounting concern over the impact on revenue of the decline in primary commodity prices after 1927 and the effect on the balance of payments

and on economic growth of the deterioration in the terms of trade of primary exporting countries. Domestically, many governments sponsored or supported schemes for stabilizing prices and incomes in the primary sector. The effectiveness of such schemes tended to vary inversely with the resources that could be officially deployed for the purpose: they were difficult to sustain in countries with low per capita income and also in countries that sold most of their output of the particular commodity on the world market. It was against this background that in a number of cases primary exporting countries turned to one another with a view to organizing the external market. However, it continued to be only in cases in which production or ownership was particularly concentrated that effective control could be established.

Wheat, export supplies of which came overwhelmingly from four major producers, was under control for only a short period before a succession of poor harvests in the nineteen thirties reduced the pressure of surpluses to the point when restrictions on acreage and on exports were considered unnecessary. The operation of the agreement had demonstrated the need for some form of sanctions to enforce compliance by participants. Its legacy was a Wheat Advisory Committee which developed into an International Wheat Council during the war (*see* table 6-2).

One of the early attempts to organize the world market for sugar—the Brussels Convention of 1902—derived what effectiveness it had from the predominant position of the United Kingdom as an importer: by using the instrument of a countervailing tariff, the United Kingdom policed an agreement to eliminate the competitive subsidization of exports by European producers. The result was a decline in domestic prices in many producing countries and a consequent increase in consumption which helped to improve the state of balance on the sugar market. This was seriously upset again after the First World War by the simultaneous rise in beet output in Europe and cane output in the tropics. Growers' attempts to improve the situation for the major exporters—notably the Chadbourne Scheme (1931) of producers in Cuba and Java—were frustrated by contrary action taken by non-participants. It was not until 1937 that governments became involved in regulating the market: an International Sugar Council was established and a control scheme evolved that included not only machinery for export quotas and upper and lower limits to exporters' stocks but also an undertaking by the two major net importers—the United Kingdom and the United States. The United Kingdom agreed to limit domestic production to 500,000 tons a year while the United States agreed to maintain the level of imports from

the free market in relation to domestic requirements. This scheme was brought to an end by the war.

International regulation of the tea market was facilitated by the high degree of concentration both of production and consumption. The first formal arrangement was born in the great depression and by means of export quotas, restraints on planting and promotion of tea drinking in various countries in which per capita consumption was relatively low, it sought to stabilize prices. It was renewed for a second five-year period in 1938.

The first inter-governmental attempt to organize the rubber market was also born in the depression. It was preceded, however, by several "stabilization" schemes through which producers, by restrictions on output in some areas—notably in Malaya—had sought to maintain prices during the period of unstable demand after the First World War. The International Rubber Regulation Committee set up in 1934 was representative of all producing countries except Brazil and Liberia. Significantly, in the light of the criticisms that had been made of producer actions in the nineteen twenties, it also had consumer members, though only in an advisory (non-voting) capacity. The control instruments were a ban on new planting, basic production quotas and export quotas fixed each quarter as a proportion of the basic quotas. When the arrangement was renewed in 1939 for another five years, the ban on new planting was lifted. By this time rearmament and a certain amount of strategic stockpiling had altered the balance between demand and supply.

The great depression also saw the establishment of an International Tin Committee. It represented all the principal producers and was charged with the administration of a Tin Restriction Scheme by means of a system of export quotas and an International Tin Pool. Precedent for the latter lay in early post-war experience when unsold supplies had been sterilized by producers in Malaya and the Netherlands East Indies in the so-called "Bandung Pool", liquidated between 1920 and 1925. The 1931 scheme was renewed in 1933 and on a more extensive basis: additional producers participated (persuaded to join by the offer of relatively generous quotas) and consumer delegates were admitted (from the Netherlands and the United Kingdom) in a consultative capacity. During the three years of this arrangement a buffer stock was again built up and liquidated. This was repeated during a third round, 1936-1939.

The war altered the commodity situation so completely that none of these arrangements was continued. A number of the international bodies that had been created in the nineteen thirties continued to operate, however, though the stabilization problem turned into one of administering a rationing system,

Table 6-2. International Primary Commodity Arrangements: Principal Characteristics

<i>Commodity</i>	<i>Entry into force</i>	<i>Duration (years)</i>	<i>Participation</i>	<i>Instruments of control</i>	<i>Remarks</i>
Wheat	1933	2	Major exporters and importers	Export quotas; acreage restrictions	Poor compliance; outdated by bad harvests. Wheat Advisory Committee established
	1942 <sup>a</sup>	0 <sup>a</sup>	Argentina, Australia, Canada, United States (exporters) and the United Kingdom	Export quotas; production control; buffer pool, maximum and minimum exporter stocks; maximum and minimum prices	Draft Convention set up an International Wheat Council
	1949	4	Major exporters (except Argentina) and importers	Guaranteed export and import quotas at the limits of a specified price range	Multilateral contract. Price range: \$1.50-\$1.80 per bushel, declining over the four years to \$1.20-\$1.80
	1953	3	Major exporters (except Argentina) and importers (except United Kingdom)	As in 1949-1953	Price range: \$1.55-\$2.05 per bushel
	1956	3	Major exporters and importers (except United Kingdom)	As in 1953-1956	Price range: \$1.50-\$2.00 per bushel
	1959	3	Major exporters, major importers	Reciprocal buying and selling obligations within the price range; exporters undertake to sell minimum quantities at upper price limit	Obligations at the price limits no longer symmetrical. Price range: \$1.50-\$1.90 per bushel
	1962	3	As in 1959, plus the Soviet Union	As in 1959-1962	Price range: \$1.625-\$2.025 per bushel
Sugar	1902	<sup>b</sup>	Major producers (except Argentina and Russia)	Prohibition of beet subsidies for production or export	United Kingdom to impose a countervailing tariff on subsidized exports <sup>b</sup>
	1931	<sup>c</sup>	Major exporting interests (particularly in Cuba and Java) accounting for less than half of world production	Export quotas	Undermined by expansion among non-participants
	1937	<sup>d</sup>	Almost all sugar producing countries, including major importers	Export quotas; exporters' stocks limited to a minimum of 10 per cent of quota and an end-of-season maximum of 25 per cent of production	United Kingdom to limit domestic production and United States to grant imports a specified share of its market. International Sugar Council set up
	1954	5	15 exporting countries and major importing countries	Export quotas; exporters' stock minima and maxima	Agreement subject to review in third year. Price range: 3.25-4.00 cents per pound
	1959	5	26 exporting countries and major importing countries	As in 1954-1959	Operative clauses suspended in 1962
Coffee	1940	4	United States and Latin American producers	Export quotas	Export quotas for markets other than the United States were fixed but remained inoperative
	1957	1	Latin American producers	Export quotas	
	1958	1	As in 1957	As in 1957	
	1959	1	Latin American and principal African producers	Export quotas	

(table continued on following page)

Table 6-2 (continued)

Commodity	Entry into force	Duration (years)	Participation	Instruments of control	Remarks
Coffee (continued)					
	1960.....	1	As in 1959	As in 1959	
	1961.....	1	As in 1960	As in 1960	
	1962.....	5	Virtually all producers and major importers	Export quotas; importers agree not to buy from non-participants	International Coffee Council set up; Agreement subject to review in 1964/65
Tea .....	1935.....	5	Major Asian exporters; producer representation	Export quotas	
	1938.....	5	As in 1933 but with government participation	As in 1933	
	1943.....	5	As in 1938	As in 1938	
	1948.....	2	As in 1943 plus Pakistan	As in 1943	Quotas not fully used
	1950.....	5	As in 1948 plus Japan	As in 1948	Quotas not fully used
Rubber .....	1934.....	5	All producing countries except Brazil and Liberia	Production and export quotas; prohibition of new planting. Export quotas fixed each quarter as a percentage of basic production quotas	International Rubber Regulation Committee established. Representatives of rubber users as advisory members
	1939.....	5	As in 1934	Ban on new planting lifted	International Rubber Study Group established
Tin .....	1920.....	<sup>e</sup>	Malaya and Netherlands East Indies	Accumulation and liquidation of the Bandung Pool of "surplus" tin	
	1931.....	2	Bolivia, Malaya, Netherlands East Indies, Nigeria and, later, Thailand	Export quotas; International Tin Pool constituted	International Tin Committee set up to administer a Tin Restriction Scheme
	1933.....	3	As in 1931, plus Belgian Congo, Indo-China, Netherlands, Portugal and the United Kingdom	Export quotas; buffer stock 1934-1935	Netherlands and the United Kingdom "consumer" delegates in consultative capacity
	1936.....	3	As in 1933	Export quotas; buffer stock 1938-1939	As in 1933
	1942.....	5	As in 1936	Export quotas (nominal)	United States also participated through non-voting consumer and government delegates
	1956.....	5	All major producers and consumers (except the United States)	Export quotas; buffer stock and price range	International Tin Council set up. Price range: £640 (later £730) to £880 per long ton
	1960.....	5	As in 1956	As in 1956	Price range: £790 to £960; later £850 to £1,000

Source: United Nations, "1961 Review of International Commodity Problems" (mimeographed document E/3508); International Labour Office, *Inter-governmental Commodity Control Agreements* (Montreal, 1943); L. Barangai and J. C. Mills, "International Commodity Agreements", Centro de Estudios, *Latinoamericanos* (Mexico, 1963); P. L. Yates, *Commodity Control* (London, 1943).

<sup>a</sup> Draft Convention of the Washington Wheat Conference did not enter into force.

<sup>b</sup> Brussels Convention. The United Kingdom, by far the

largest importer, obtained half its supplies from continental Europe and therefore exercised a considerable influence on exporters' policies.

<sup>c</sup> Chadbourne Scheme. Participants' share of world production dropped from 46 per cent in 1929/30 to 24 per cent in 1933/34.

<sup>d</sup> First inter-governmental agreement ended by the outbreak of war.

<sup>e</sup> The Bandung Pool was exhausted in 1925.



the quotas being applied to consumers rather than producers and the stimulus being given to production, with as small a rise in price as possible.

Existing and war-time shortages were still matters of concern when world commodity problems were discussed at the Havana Conference in 1947. That thinking was also influenced by the inter-war experience of stabilization schemes is clearly evidenced by the structure and content of chapter VI of the Charter that constituted the Final Act of the Conference. According to this chapter, which dealt with inter-governmental commodity agreements, an "international control agreement" was to be regarded as essentially an emergency measure to be entered into only when there was "general agreement" among countries "substantially interested in the commodity" that either a "burdensome surplus" or "widespread unemployment" had developed or was expected to develop in connexion with the commodity and that these conditions "could not be corrected by normal market forces".<sup>2</sup> Among the principles governing such agreements, moreover, were several aimed at protecting net-importing (consumer) countries against the risks that had been brought to light from time to time by the stabilization activities of producer cartels in the inter-war period. Control agreements were to ensure the availability of adequate supplies and were to be administered in a manner that gave countries "mainly interested in imports of the commodity concerned" a voice equal to that of exporting countries on all "substantive matters".<sup>3</sup> The life of such an agreement would be limited to five years in the first instance.

The Havana Conference thus endorsed the conclusion of the London Monetary and Economic Conference of fifteen years earlier that inter-governmental agreements were preferable to producer cartel arrangements and that the co-operation of consumer interests in importing countries was desirable in their implementation.

Though the Havana Charter was not adopted, chapter VI of it was picked up by the United Nations Economic and Social Council and in resolution 30 (IV) governments were urged to accept the principles it set forth as a general guide to international consultation and action on primary commodity problems. To this end an Interim Co-ordinating Committee for International Commodity Arrangements was established to be responsible for convening commodity study groups, for making recommendations in regard to the calling of United Nations conferences for negotiating commodity agreements and for

co-ordinating the activities of study groups and councils administering commodity agreements.

The setting up of machinery did not result in a rapid proliferation of commodity agreements. The principal reason for this was undoubtedly the generally more favourable situation on world commodity markets: the real purchasing power of primary products in terms of manufactures was well above the depressed levels of the nineteen thirties and demand was appreciably more stable. But, by making it necessary to reach a consensus among a much larger number of countries than might previously have been involved, the principles now governing international action have inevitably tended to increase the complexity of negotiation.<sup>4</sup> As a result, the agreements concluded in the first fifteen years after the war were all based essentially on pre-war fore-runners or on a carry-over organizational core. Indeed, not even the pre-war agreements were all re-activated: in the case of rubber, international action was confined to consultation within the framework of a Study Group, while in the case of tea, agreements were negotiated in 1948 and 1950 but thereafter the International Tea Council became a consultative body, concentrating largely on market promotion and data publishing.

Thus, it was only in respect of wheat, sugar and tin that fully operative control agreements were concluded in this period. The 1954 Sugar Agreement was patterned very largely on that of 1937, though the representation of net-importing countries was appreciably greater. The 1956 Tin Agreement was based, similarly, on those of 1933, 1936 and 1942, though here again the membership was wider and in addition the buffer stock provision was put on a more formal and permanent footing. The Wheat Agreement was the only one to introduce new operating principles: in 1949 and again in 1953 and 1956, the agreement was based on a multilateral contract which bound importers as well as exporters to specified quotas within a specified price range.

The first essentially new control agreement in the post-war period was negotiated in 1962 for coffee. Even in this case the ground had been prepared earlier through action in 1940 which organized a large segment of the market by setting quotas for Latin American countries exporting to the United States. After the decline in prices from the peaks attained in 1954, the Latin American producers arranged in 1957 to revive the quota system of controlling the movement of coffee on to the world market. The arrangement, which effectively sterilized a large amount of coffee in Brazil, was repeated in 1958 and again in 1959, this time in co-operation

<sup>2</sup> United Nations, *Havana Charter for an International Trade Organization* (Sales No.: 48.II.D.4), chapter VI, section C, articles 62 and 63.

<sup>3</sup> *Ibid.*

<sup>4</sup> See below for a discussion of the question of country coverage and its implications.

with the major African producers. This wider arrangement was also renewed annually until, in 1962, it too was broadened into a conventional control agreement in which all the principal importers were also associated.

The Coffee Agreement came into operation in 1963. It represents virtually the first international agreement for a commodity in which the industrial countries are neither major producers nor major owners but exclusively consumers. It is also the first agreement to envisage a system of price discrimination—dividing the world into an organized price-maintained sector on the one hand, comprising high-consumption countries with relatively inelastic demand, and a residual free sector on the other hand, in which the lower prices that could be expected to emerge as a result of competition among exporters might help to stimulate consumption. Importers in the organized sector have no quota obligation but have undertaken to obtain all their requirements from exporting members, thus effectively insulating the sector from the residual market.

The Coffee Agreement has not yet been tested in operation. If any lessons are to be drawn from the way in which control agreements have worked in recent years it is the markets for wheat, sugar and tin that must be examined.

The first post-war *International Wheat Agreement* ran from 1949 to 1953. Exporters (principally Australia, Canada and the United States; Argentina did not participate) undertook to sell guaranteed quantities at a maximum price of \$1.80 a bushel, while participating importers undertook to buy specified amounts at a minimum price that was to be lowered from \$1.50 to \$1.20 per bushel over the life of the Agreement. In the event, world market prices were consistently above the maximum so that the Agreement effectively stabilized the cost of wheat to importers at \$1.80 a bushel. Given this obvious advantage, importers fulfilled their obligation and, in fact, 95 per cent of the guarantees were effective.

It is therefore not surprising that in the second Agreement in 1953 exporting countries insisted on raising the price range to \$1.55-\$2.05 per bushel. But this was accomplished at the expense of United Kingdom participation. For the third Agreement in 1956, the price range was lowered slightly to \$1.50-\$2.00 per bushel, but several other importers also withdrew. Quota guarantees fell from about 16 million tons a year in the first Agreement to 11 million tons in the second and to 8 million tons in the third. The proportion of world trade taking place outside the Agreement rose from about 40 per cent to about 75 per cent.

The resistance of importers to the higher price range was based on what proved to be a correct

prognosis of market conditions. Stocks began to accumulate in the principal exporting countries and world prices fell in 1953 and continued to drift erratically downwards until in 1957 they had reached a level barely 10 per cent above the Agreement minimum. Nevertheless, thanks largely to the stock management policies of the major exporters, prices remained within the Agreement range throughout the period so that relatively few transactions were "registered" under the guarantee quota provisions operating at the price limits: the proportion of registrations declined from 95 per cent of the 16 million ton quotas of the first Agreement in 1952/53 to a little over 60 per cent of the smaller quotas of 8 million tons in 1957/58. Compared with the 5 million tons sold under guarantee in 1957/58, actual shipments by member exporters to member importers totalled about 15 million tons.

The change in the balance between commercial demand and exportable supplies was reflected in the Wheat Agreement when it was renegotiated in 1959. The obligation of importing and exporting participants ceased to be symmetrical. The system of absolute quotas was abandoned. Within the price range—which was set somewhat lower than in the previous Agreement—participating importers undertook to purchase a minimum proportion of their commercial imports from participating exporters and the latter undertook to supply such quantities. If the world price rose above the upper limit of the range, exporters undertook to supply—at the price ceiling—an amount equal to the average of their sales to importers in the previous four years. There was no corresponding obligation on importers if prices should fall below the lower limit.

This modification succeeded in bringing back into membership the importing countries that had not acceded to the 1953 and 1956 Agreements. The enlarged membership endorsed a raising of the price range—to \$1.625-\$2.02 a bushel—when the Agreement was renegotiated in 1962. The proportion of world trade covered by the Agreement was thus restored more or less to the levels of the early nineteen fifties. In one sense, however, the gain in coverage was only nominal: an increasing proportion of exports was of a non-commercial nature, reported under the Agreement but sold on "concessional" terms, and not subject to its price range. The fact that the world price remained within the Agreement limits was the result not of the operation of the buying and selling commitments of member countries, but of the stock management undertaken by the major exporters, most notably the United States. The wheat stocks held by Argentina, Australia, Canada and the United States increased fourfold to about 54 million tons between 1952 and 1959, and by the early nineteen sixties the United States alone

was holding off the market over 35 million tons—one year's production—notwithstanding a rapid rise in exports at low (or zero) price. By holding such a buffer from which the outflow on to the commercial market was restricted to the amount salable at a price within the Agreement range, the United States was in effect the stabilizing agency, in a position to accommodate sizable fluctuations in its own crop and in the demands made on the world market as a result of crop changes in net-importing countries.

The first post-war *International Sugar Agreement*, entering into effect in 1954, divided the free (non-preferential) market among participating exporters by means of a schedule of "basic" quotas reflecting historical shares. Proportional changes in these quotas provided the principal instrument of control by which supply could be adjusted to the amount demanded at a price within an agreed range, namely 3.25-4.00 cents a pound. Basic quotas were operative as long as the price held between 3.45 and 3.75 cents per pound. If the price dropped to between 3.15-3.25 cents a pound for a minimum period, operating quotas were automatically reduced 5 per cent below the basic level and the Council was empowered to cut them by a further 5 per cent. If the price declined below 3.15 cents a pound, the Council could reduce operating quotas 20 per cent below basic quotas. Correspondingly, if the price rose above 3.75 cents a pound, operating quotas were increased by 2.5 per cent, while above 4 cents a pound the quota restraint was withdrawn and importers were released from their obligation to obtain supplies only from non-participants.

As a cushion between production and marketed supply, exporters were obliged to hold certain stocks. These were designed as a supplementary instrument of control: they were to be maintained within a specified range—a minimum of between 10 per cent and 15 per cent of basic quota and a maximum, measured just before the new harvest, of one-eighth of the previous year's output. In principle, this was intended to accommodate normal fluctuations in crops, whether in exporting countries—and thus in world market supply—or in importing countries—and thence expressed as demand on the world market.

In practice, the market changes that actually occurred were too violent for this quota-cum-buffer stock arrangement to cope with. Additional (largely inventory) demand at the time of the Suez crisis kept the price above the 4 cent ceiling for almost a year (December 1956-November 1957) during which all restrictions were abandoned. The high price stimulated production, in net-importing as well as exporting countries, and when additional export supplies became available, demand on the world market had greatly receded. As a result, the price

dropped through the floor in 1959, notwithstanding the imposition of maximum restraints on exports. Below-range prices persisted through much of 1960 and 1961, the impact of larger crops being accentuated by the uncertainties generated by the disruption of the flow of sugar from Cuba to the United States. The consequent reshaping of the pattern of world trade in sugar made it impossible for the Council to agree to a revised schedule of basic quotas and in 1962 the control clauses of the 1958 Agreement became inoperative.

The first post-war *International Tin Agreement* came into effect in 1956. Like the Sugar Agreement, it involved control through export quotas and stock management, though in the case of tin the latter was centralized and made into the initial stabilizing instrument. A price range was defined and the buffer stock given the task of conducting its purchases and sales in a way that would keep the market price within the range. To this end, the manager of the buffer stock is required to sell if the price is above the ceiling and to buy if it is below the floor; in the upper third of the range he may sell, in the lower third he may buy. Resources of the buffer were drawn from producers and totalled about £16 million—the equivalent of 25,000 long tons of tin valued at the floor price of £640 per long ton. In the second Agreement (1960), these resources were made somewhat more elastic: the compulsory contribution of producers was reduced to the equivalent of 20,000 long tons, but the potential resources were augmented by providing the manager of the buffer with certain authority to borrow, on the security of the producing countries.

Backing up the equilibrating operations of the buffer stock is a system of export control by means of quota restraints at the disposal of the Council. The quotas represent historical shares of world trade—subject to possible modification in the light of actual export performance and changes in membership—and they govern the distribution among producer members of a "total permissible export amount" specified for a control period (usually a calendar quarter). The Council is authorized to declare such a control period whenever the stock accumulated in the buffer seems likely to exceed a specified level—10,000 tons or 40 per cent of the buffer resources under the 1956 Agreement, 5,000 tons or a fourth of buffer under the 1960 Agreement.

As in the case of the Sugar Agreement, the instruments of control proved insufficient to prevent several violent swings in the tin market during the currency of both the 1956 and the 1960 Agreements. The first severe test of adequacy came in 1958 when a recession in commercial demand, particularly in the United States, coincided with the end of strategic stock-

piling and a sudden upsurge in shipments from non-participating countries, particularly the Soviet Union. The buffer stock began to take up tin at a rapid rate and quota restrictions were applied to all exporting members. Despite a loan by producers to give the buffer additional purchasing power, its resources were exhausted and in September the price dropped below the Agreement floor. The collapse was short-lived, however, for in the final quarter of 1958 there was a reversal of the major influences at work: current absorption began to rise, Soviet shipments were reduced—at first by means of import control in the United Kingdom and then as a result of a voluntary agreement regarding exports by the Soviet Union—and the full effect of the quota restrictions on member exporters began to be felt. These forces persisted throughout 1959 and 1960; export restraints were systematically relaxed and eliminated completely in October 1960. The market balance continued to move from surplus to shortage, however, and by mid-1961 the tin resources of the buffer

proved too small to prevent the price from breaking through the Agreement ceiling.

The difficulties of the buffer were accentuated by the peculiar problems facing producers: the restraints on exports in the period 1958-1960 left the mines significantly below earlier rates of production. In 1962, output was still about 10 per cent below the pre-restriction level and it had fallen short of consumption for five successive years. With the exhaustion of the buffer stock and the inability of members to increase production in the short term, control at the upper end of the price range passed into the hands of the United States—a non-participating country—whose tin holdings were announced in 1961 to be equivalent to over three years' world exports and far in excess of strategic requirements. As in the case of wheat, the stabilization function of the international agreement has become dependent to a large extent on the disposal policy pursued by the United States.

### Current stabilization problems

The history of international action aimed at reducing the instability of primary commodity markets indicates that the basic problems that have to be solved case by case have not changed very greatly even though the institutional setting has been modified by many technological as well as economic and political developments.

Among the institutional developments, perhaps the most significant is the spread of national stabilization schemes. For some commodities such schemes are almost universal among the principal trading countries and the result has been some deterioration in the status of the world market: since they are used by net-importing countries as a means of holding supplies on the domestic market stable, they have adversely affected the stability of the world market. On the other hand, the evolution of national stabilization machinery on a permanent basis has had some impact on attitudes towards primary commodity markets: the need for regulatory action is widely conceded, even among those who remain critical of the precise form of regulation adopted in specific situations.

Institutional conditions have also been modified by the continuing shrinkage of the economic world through technical advances in transport and communications. The physical movement of goods is a continually diminishing obstacle to the unification of the world market. Information about world market conditions has also become more plentiful and more timely and the obstacles to market organization

arising from lack of current knowledge have been steadily reduced. In the process a number of international bodies have played a significant part. These include not only the international councils set up to administer particular commodity agreements but also a sizable number of study groups established by interested governments—in some cases during the nineteen thirties or during the war, or more recently under the auspices of the Interim Coordinating Committee for International Commodity Arrangements (ICCICA) or the Food and Agriculture Organization of the United Nations (FAO).

These study groups have, in general, been set up in terms of article 58 of the Havana Charter and it is their function to "investigate the production, consumption and trade situation in regard to the commodity" in question.<sup>5</sup> As in the case of agreements, they were thought of in terms of "special difficulties which exist or may be expected to arise", but in the event they have been concerned not only with emergencies but with keeping the world market situation under continuous review, standardizing and regularizing reporting procedures and disseminating economic intelligence relating to the commodity, as well as with promoting stabilizing action on an *ad hoc* basis and the preparation of more formal inter-governmental agreements. Such study groups now cover commodities accounting for about 17 per cent

<sup>5</sup> United Nations, *Havana Charter for an International Trade Organization*, chapter VI, section B, article 58, section 3.

of the total exports of primary products from the developing countries to the industrial countries. Commodities under the five operating agreements account for a further 15 per cent of that trade. And a further 33 per cent is covered by the Organization of Petroleum Exporting Countries (OPEC) which, not being representative of consuming or importing interests, is not a study group in the Charter sense of that term. In the aggregate (excluding petroleum), about one-third of all primary commodity imports of the industrial countries—and about one-half of the imports coming from the developing countries—are the subject of study or action by one or another of these international bodies (*see* table 6-3).

In principle, a study group is the body which might be expected to decide on the need for more positive action in the form of an international control agreement regulating conditions on the world market and to draft the essential elements of such an agreement. It is in this area of world market organization that the main operational problems have to be faced. Among these, perhaps the most critical ones are those concerning the price level at which the market is to be stabilized, the coverage of the agreement—in terms of both country participation and commodity inclusion—and the instruments of control through which the stabilization is to be effected. Experience in the operation of agreements has shed a certain amount of light on these matters but, as indicated at the beginning of this section, the problem, while of essentially the same basic nature on all commodity markets, tends to have features unique to each commodity—reflecting not only the nature of the commodity but also the historical development of its production-consumption pattern and the commercial institutions around which the trade has evolved.

#### THE PROBLEM OF PRICE RANGE

It is a matter of fairly general agreement that international stabilization efforts should be directed at smoothing out the random fluctuations in price which tend to characterize the markets for primary commodities. As to whether international arrangements should go further than this and seek to influence the absolute level and trend of prices, opinions are much more divided. It is widely accepted that erratic short-term swings in price, however accurately they reflect current or spot forces working on the market, serve little or no useful longer-run purpose as a guide to production and investment decisions or in the global allocation of resources, and, indeed, may often prove misleading in this connexion. Elimination of such swings would benefit producer and consumer, exporter and importer alike. While such a stabilization function is conceptually meaningful, however, in practice it is not possible to iron out random fluctuations

Table 6-3. International Commodity Groups:  
Trade Coverage in 1962

(Millions of dollars)

Nature of body and commodity	Value of imports of industrial countries <sup>a</sup> from:		
	World	Primary exporting countries <sup>b</sup>	Developing countries <sup>c</sup>
International Control			
Agreements .....	4,274	3,245	3,021
Wheat .....	1,047	254	149
Sugar <sup>d</sup> .....	1,139	1,002	886
Tin .....	350	272	270
Coffee .....	1,738	1,717	1,716
Other agreements ...	101	35	35
Olive oil .....	101	35	35
Study groups .....	7,968	4,939	3,420
Grains <sup>e</sup> .....	1,586	470	298
Rice .....	118	62	61
Cocoa .....	516	444	440
Coconuts and products .....	226	213	213
Citrus fruit .....	500	235	189
Cotton .....	1,424	871	871
Wool .....	1,972	1,513	295
Jute .....	161	157	157
Rubber .....	1,012	764	764
Lead and zinc ....	453	210	132
Producer groups ....	9,295	7,212	7,200
Petroleum .....	8,849	6,772	6,761
Tea .....	446	440	439
TOTAL, above	21,638	15,431	13,676
TOTAL, primary commodity imports ..	46,494	23,669	20,299

Source: Bureau of General Economic Research and Policies of the United Nations Secretariat, based on United Nations, "1963 Review of International Commodity Problems" (mimeographed document E/3731) and the material contained in chapter 5 of the present report.

<sup>a</sup> North America, western Europe and Japan.

<sup>b</sup> Latin America, Africa, Asia (other than mainland China, Japan and Turkey) and Oceania.

<sup>c</sup> Latin America, Africa (other than the Republic of South Africa) and Asia (other than mainland China, Japan and Turkey).

<sup>d</sup> Control mechanism not now operative.

<sup>e</sup> Food and Agriculture Organization of the United Nations Group on Grains is also interested in wheat, but trade in wheat is indicated under the International Wheat Agreement above and omitted from trade under this Group.

without at the same time deciding on the norm or central range from which the deviations take place.

Historically, determining the appropriate price range to be defended by stabilization action has been one of the main stumbling-blocks in the way of both setting up and operating commodity agreements. It was one of the issues preventing the consummation of a cocoa agreement in 1963; it was the major source of complaint against many of the producer arrangements of the pre-war period. While

this suggests that the conflict of interest in this matter has been between exporter and importer, this has not invariably been the case nor is it always at this point that interests diverge most sharply. Some net-importers—especially among those nearing the point of self-sufficiency—have argued for a higher range with the object of lessening the gap between the world market price and their internal supported price. Some exporters—especially among those with favourable cost structures—have argued for a lower price range with the object of expanding the market and increasing their share of it.

The lesson to be drawn from the operation of various forms of market organization—from efforts to raise prices during the depressed nineteen thirties, and efforts to hold down prices during the period of war-time shortage, as well as from more recent action—suggests that the further the stabilization price range moves from the equilibrium level appropriate to the existing schedules of demand and supply, the more rigorous is the required degree of control. Unrealistically low prices place a great strain on the rationing mechanisms used for controlling demand, and “grey” and “black” markets tend to emerge on which higher prices are paid. Similarly, experience has shown that unrealistically high price levels cannot be long sustained: not only do they choke off some demand and encourage new production (not least in net-importing countries), but they constitute a standing invitation to various parties (low-cost producers, producers who have not acceded to the agreement and consumers who feel aggrieved by the price policy, for example) to trade outside the framework of the organized market. To maintain such a price requires not only a high degree of purpose and loyalty on the part of consumers, but also very firm control over production.<sup>6</sup>

To say that an unrealistic price is extremely difficult to sustain throws no light on the question of selecting a “realistic” price. Here, experience seems to suggest that a certain amount of experimentation is almost inevitable: while some guidance may be obtained from the previous course of the market and continuous study is required of current developments on both the demand and the supply side, in the last resort the viability of the selected price range has to be tested in the market. This, in turn, suggests that a wider price range will be less difficult to maintain than a narrower one and that if provision is made for changing the range—whether by some formula for automatic adjustment if the market

price remains at one of the limits for a specified period or by decision of the Council administering the agreement—the need for renegotiation of the whole agreement may be reduced. While frequent changes in the stabilization range would obviously defeat the object of the agreement, sufficient flexibility to allow for smooth adjustment in conformity with underlying economic forces would appear to be most desirable.

Recent experience in selecting and operating a stabilization price range is confined to that gained in administering the wheat, sugar and tin agreements. In all three cases the market price escaped from time to time from the specified range, but, on the whole, wheat prices were kept most stable. The relative stability of prices within the range is not necessarily a measure of the “correctness” of the range in any absolute sense. It does, however, reflect its realism or tenability in relation to the means available for defending it. The size of wheat stocks and the willingness and ability of the major exporters to control the flow from them to the market were probably the decisive factors in this respect.

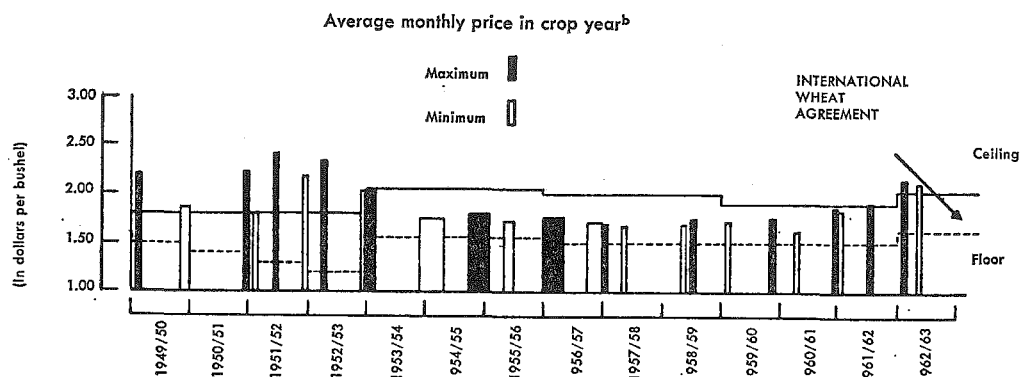
World market prices were generally above the stabilization range during the life of the first post-war Wheat Agreement (*see* chart 6-1). From 1953 to 1962, however, monthly averages remained within the specified limits, raised as these were in the second Agreement (1953-1956). The range was lowered slightly in the third Agreement (1956-1959) and narrowed in the fourth (1959-1962). It was not until 1962 that market prices began to move upwards towards the ceiling. This movement induced a rise in the range set for the fifth Agreement (1962-1965), but the effect of poorer crops in many parts of the world was to push the price out of the range—for the first time in ten years.

In the case of sugar, the world price dropped below the minimum level of the agreement range in 1954 and 1955 and again in 1959, 1960, 1961 and 1962, and it broke through the maximum level in 1956 and 1957 and again in 1962 and 1963 (*see* chart 6-2). The problem would thus appear to be less one of an unrealistic stabilization range or of persistent pressure arising from structural distortions, than one of inadequacy of the resources available for resisting strong but temporary forces arising from random causes, such as crop failures and political crises. The extreme instability of the world sugar price also derives from the narrow “residual” nature of the free market.<sup>7</sup> Relative to

<sup>6</sup> The problems and possibilities of “organizing” the market in order to obtain a higher price are discussed in some detail in United Nations mimeographed document E/CONF.46/P/5, “Organization of International Markets for Primary Commodities”, by M. J. ’t Hooft-Welvaars.

<sup>7</sup> In the eleven years between 1950 and 1961, for example, imports of sugar into western Europe increased between one year and the next by more than 20 per cent on two occasions and declined by more than 10 per cent on three occasions; only half the year-to-year changes in demand on the world market were smaller than 8 per cent.

Chart 6-1. Stabilization Price Range under the International Wheat Agreement and Actual Maximum and Minimum Average Monthly Prices,<sup>a</sup> 1949/50-1962/63

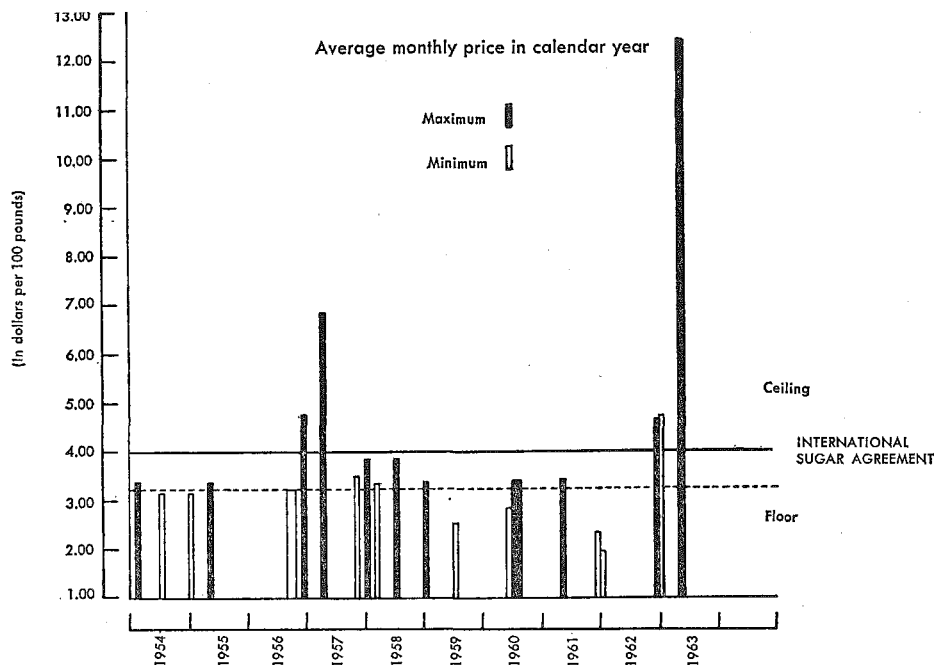


Source: Bureau of General Economic Research and Policies of the United Nations Secretariat, based on International Wheat Council, *World Wheat Statistics* (London).

<sup>a</sup> Average of daily export price quoted by the Canadian Wheat Board; maximum and minimum are respectively the highest and lowest monthly averages recorded in each crop year.

<sup>b</sup> August to July.

Chart 6-2. Stabilization Price Range under the International Sugar Agreement and Actual Maximum and Minimum Average Monthly Prices,<sup>a</sup> 1954-1963



Source: Bureau of General Economic Research and Policies of the United Nations Secretariat, based on International Sugar Council, *Statistical Bulletin* (London).

<sup>a</sup> Prior to 1961: New York Coffee and Sugar Exchange, spot price No. 4 Contract, f.a.s., Cuba; since 1961: New York No. 8 spot price. Maximum and minimum are respectively the highest and lowest monthly averages recorded in each calendar year.

the trade taking place in that market, very large stocks might well have been required to hold prices within the stabilization range at times when large fluctuations in total demand or supply had to be accommodated in a market that normally handles less than half of world trade.

The price of tin has also shown a high degree of instability. Though this was moderated somewhat by the Agreement that came into force in 1956, use of a buffer stock did not prevent the price from dropping below the stabilization range in 1957 and 1958 and rising above the range in

1961, and again—notwithstanding two appreciable increases in the range—in 1962 and 1963 (see chart 6-3). Between 1957 and 1961 the range was significantly narrower (£150 per long ton) than in 1956 (£240) or in 1962 and 1963 (£175) and hence rather more difficult to defend. It was narrowed again (to £150) at the end of 1963, by which time the buffer stock had lost all means of holding the price down.

The only other commodity for which there is an international control agreement is coffee. As this has not yet begun to function fully in respect of its price stabilization operations, the relationship between its price objective and the resources it is able to deploy is not yet clear. The price objective itself has been defined only in the broadest terms: to lessen short-term fluctuations and to ensure “that the general level of coffee prices does not decline below the general level of such prices in 1962”.<sup>8</sup> The 1962 price level was itself, in part, a supported level: it represents a market equilibrium attained after a period of stock withholding by Brazil, the major producer. This stock management, along with a system of export quotas under earlier arrangements, had contributed to a levelling out of the price trend in its downward slide from the 1954 peak (see chart 6-4). Coffee prices had thus been stabilized to a considerable degree before the Agreement went into effect. Maintenance of the 1962 level was predicated on a continuance of quota controls over all exporters and of stock management, at least by Brazil.

<sup>8</sup> International Coffee Agreement, article 27 (2), contained in *United Nations Coffee Conference, 1962, Summary of Proceedings* (United Nations publication, Sales No.: 63.II.D.1).

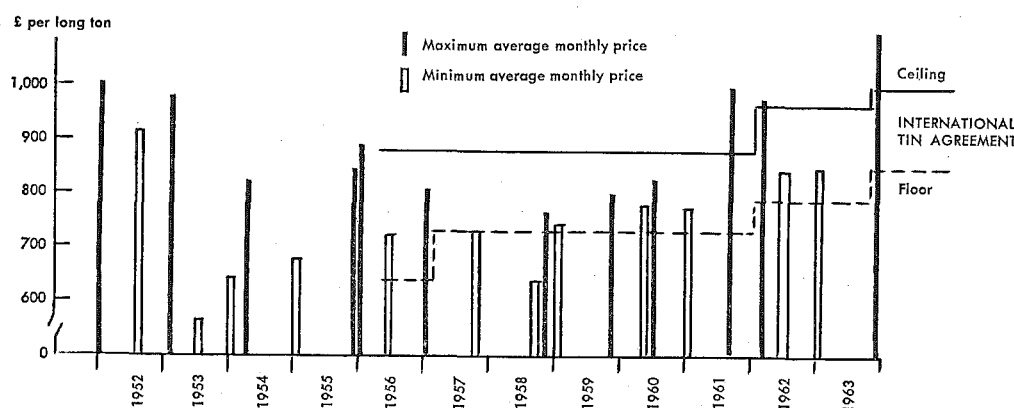
### THE PROBLEM OF COVERAGE

The defensibility of any price range depends in part on the coverage of the agreement. The more countries there are outside the agreement, for example, the weaker it is likely to prove and the greater will be the difficulty of sustaining a high price. Similarly, the extent to which a higher price range can be maintained depends on the degree of control that is exercised over competitive commodities that may be substituted for the item whose price is being stabilized. While wider agreements thus tend to provide greater strength, they have usually been more difficult to negotiate in the first place.

### Country participation

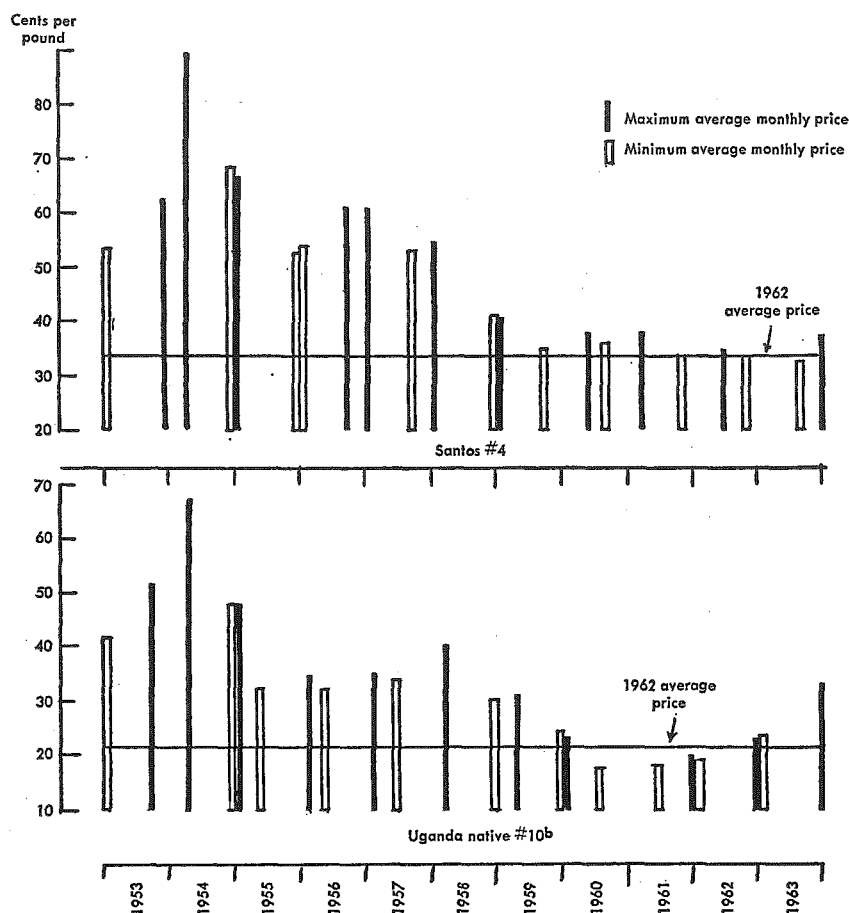
The historical trend in country participation in international commodity arrangements is decidedly upward. Single-country “valorization” schemes between the wars rarely did more than permit a major exporting country to raise its price temporarily and even then not necessarily to its longer-run advantage. Cutback arrangements made among a few producing countries were no more successful: they usually resulted in a loss in the relative position of the restricting countries. In the case of the Chadbourne sugar scheme, for example, the participants—principally in Cuba and Java—saw their share of world trade cut in half in the course of four years of restriction. In this way, it was demonstrated on a number of occasions that the more inclusive the exporter participation the more effective the operation of the control. In the nineteen thirties, moreover, some of the advantages of importer participation were also demonstrated. The co-operation of importers not only reduced the chances that consumers, sensing an element of ex-

Chart 6-3. Stabilization Price Range under the International Tin Agreement and Actual Maximum and Minimum Average Monthly Prices,<sup>a</sup> 1952-1963



Source: Bureau of General Economic Research and Policies of the United Nations Secretariat, based on International Tin Council, *Statistical Bulletin* (London).



Chart 6-4. Coffee: Maximum and Minimum Average Monthly Prices,<sup>a</sup> 1953-1962

Source: Bureau of General Economic Research and Policies of the United Nations Secretariat, based on Pan-American Coffee Bureau, *Annual Coffee Statistics* (New York).

<sup>a</sup> New York market prices. Maximum and minimum prices are respectively the highest and lowest monthly average figures recorded in any calendar year.

<sup>b</sup> The 1963 maximum and minimum monthly average prices have been estimated on the basis of movements of prices of Angola, Ambriz coffee ex-dock New York, spot in bulk.

exploitation in a producer arrangement, might deliberately seek to circumvent it, but it also provided a potential means of policing trade under the arrangement. It was not until the post-war period, however, that importing countries became full parties to agreements in a formal and systematic way, as provided for in the Havana Charter.

In the case of the International Wheat Agreement, exporter participation has risen from four to ten countries, and in 1962/63, members accounted for almost 96 per cent of world exports (see table 6-4). As indicated above, importer participation has fluctuated somewhat from one agreement to another: in 1962/63 it amounted to thirty-seven countries (the same number as in 1949/50), though accounting for an appreciably smaller proportion of world imports—around 60 per cent in recent years. As much as a third of the shipments of exporter members thus go to non-member importers.

Participation in the International Sugar Agreement has risen from fifteen to thirty countries among exporters and from eight to twelve countries among importers. The gap between exporter coverage and importer coverage has been rather smaller than that in the case of wheat: exporter members account for about three-fourths of world exports and importer members for about two-thirds of world imports.

More concentrated than wheat and sugar, trade in tin originates almost entirely in the six countries that participate in the International Tin Agreement as exporters. Importer members number fifteen; they account for the great bulk of imports of ore and concentrates—about 90 per cent in 1962—but most trade in the metal moves from member exporters to non-member importers, among which the United States is by far the largest.

Table 6-4. International Agreements: Participation of Exporters and Importers

Commodity and year	Number of participants		Share of participating countries in world			
	Exporting countries	Importing countries	Exports (percentage)	Imports		
<i>Wheat<sup>a</sup></i>						
1949/50 .....	4	37	93	87		
1950/51 .....	4	41	92	89		
1951/52 .....	4	41	90	89		
1952/53 .....	4	42	86	86		
1953/54 .....	4	44	72	68		
1954/55 .....	4	44	74	60		
1955/56 .....	4	44	80	61		
1956/57 .....	6	42	90	67		
1957/58 .....	6	42	88	57		
1958/59 .....	6	42	84	59		
1959/60 .....	9	34	91	67		
1960/61 .....	9	35	93	65		
1961/62 .....	9	36	93	60		
1962/63 .....	10	37	96			
<i>Sugar<sup>b</sup></i>						
1954 .....	15	8	76	68		
1955 .....	15	8	76	69		
1956 .....	15	8	69	61		
1957 .....	19	7	65	66		
1958 .....	21	9	72	64		
1959 .....	26	9	74	67		
1960 .....	26	10	77	69		
1961 .....	30	12	75	64		
1962 .....	30	12	75	65		
<i>Tin<sup>c</sup></i>						
			Con- cen- trates	Metal	Con- cen- trates	Metal
1956 .....	6	15	98	98	81	30
1957 .....	6	15	97	98	97	37
1958 .....	6	14	95	95	89	46
1959 .....	6	14	96	97	80	41
1960 .....	6	14	98	99	79	31
1961 .....	6	15	97	98	82	38
1962 .....	6	15	97	98	90	46

Source: Bureau of General Economic Research and Policies of the United Nations Secretariat, based on "Inter-governmental Commodity Agreements" (United Nations mimeographed document E/CONF.46/30); International Sugar Council, *Sugar Yearbook* for the years 1960 and 1962 (London); International Wheat Council, *Annual Report* for the years 1950/51 to 1961/62 and *World Wheat Statistics*, 1955 to 1963 (London).

<sup>a</sup> July/June year; exports of participating countries do not include shipments from the Soviet Union to other centrally planned countries.

<sup>b</sup> Excluding trade between metropolitan areas and overseas departments, provinces, dependencies and associated countries.

<sup>c</sup> Excluding trade among the centrally planned countries.

It is probably a truism that the more parties there are in any negotiation, the more difficult it is likely to be to reach a consensus. To this extent, commodity agreements have become harder to achieve. Such a conclusion may be in part illusory, however, for an arrangement that is effective and enforceable is presumably greatly to be preferred over one that is ineffectual and likely to be short-lived, even if the latter is more readily negotiated. Moreover, the complication introduced by requiring the participation of importers is proportionate to their numbers only when there is a clear dichotomy be-

tween producer and consumer—as in the case of some so-called tropical commodities, for example. The number of participants was a delaying factor in the negotiation of the Coffee Agreement in 1962, and the stand taken by importing countries helped to abort the cocoa negotiations in 1963. For many other commodities, on the other hand, the distinction between producer and consumer countries is less definitive and the divergence in interest between one and the other may be less marked than it is between low-cost and high-cost producers or between marginal importers and countries completely dependent on imports.

Among the parties to the International Wheat Agreement, for example, countries classed as importers account for about a sixth of total production (*see* table 6-5). Their dependence on imports ranges from marginal (in the case of such countries as Greece, Iran and Tunisia) to virtually complete (as in the case of a number of the developing countries, including Ceylon, Cuba, Indonesia, Nigeria, the Philippines, Rhodesia and Venezuela). Correspondingly, there is considerable variation among exporter members. Some are only marginal exporters and may occasionally be net importers—as in the case of Italy and Spain. Others produce two or three times the amount of wheat they consume—as in the case of Australia, Canada and the United States.

Similar diversity exists among the countries participating in the International Sugar Agreement (*see* table 6-6). Importer members again account for about a sixth of total production and range from marginal import-dependence (as in the case of the Federal Republic of Germany and Ireland) to virtually complete import dependence (as in Ghana, Greece, Morocco, New Zealand and Nigeria). Exporter positions also extend over the whole spectrum: from marginal in the case of such countries as Denmark, Italy, the Netherlands, Portugal and the Soviet Union to extreme export-dependence in China (Taiwan), Cuba and the Dominican Republic.

Among the participants in the International Tin Agreement, importer members account for very little (about 4 per cent) of ore production but a sizable proportion (about 37 per cent) of metal production (*see* table 6-7). Among the importer members are several—Belgium, the Netherlands and the United

Kingdom—that produce more tin than they consume; thus, while net importers of ores and concentrates, these countries are significant net exporters of metal. They also share prominently as owners of mining and smelting facilities in some of the exporting member countries.

The Havana Charter provision that importing countries participate equally with exporting countries in the formulation and administration of agreements was undoubtedly influenced by recollections of the rubber restriction and coffee valorization schemes of the inter-war period. The fact that this dichotomy was not universally valid was recognized in the Charter,<sup>9</sup> but no specific rule was laid down to ensure that “importer” votes were not exercised by governments more interested in (or more influenced by) domestic producers of the commodity or domestic owners of production capacity in exporting countries. The tying of votes to actual historical exports and imports, as is done in the International Tin Agreement, provides one means of avoiding the somewhat ambiguous distinction between an exporter member and an importer member. Some pre-war arrangements made provision for suitable private groups to represent consumer interests, but always in an advisory capacity.

<sup>9</sup> In article 63, section (b), which reads: “Under such agreements, participating countries which are mainly interested in imports of the commodity concerned shall, in decisions on substantive matters, have together a number of votes equal to that of those mainly interested in obtaining export markets for the commodity. Any participating country, which is interested in the commodity but which does not fall precisely under either of the above classes, shall have an appropriate voice within such classes.”

Table 6-5. Wheat: Production and Trading Position of Exporting and Importing Countries Participants in the International Wheat Agreement, Average 1958/59-1960/61

(Thousands of tons)

Country <sup>a</sup>	Production <sup>b</sup>	Exports <sup>c</sup>	Imports <sup>c</sup>	Net trade <sup>d</sup>	Apparent consumption <sup>e</sup>	Ratio of production to consumption (percentage)
<i>Exporters</i>						
Argentina .....	5,506	2,298	—	2,298	3,659	150
Australia .....	6,235	3,404	—	3,404	2,073	301
Canada .....	12,101	8,336	—	8,336	4,193	289
France .....	10,720	1,463	426	1,037	9,311	115
Italy .....	8,360	467	854	—387	9,029	93
Mexico .....	1,264	11	2	9	1,255	101
Spain .....	4,232	225	350	—125	4,460	95
Sweden .....	753	125	133	—8	721	104
USSR .....	69,990	5,489	165	5,324	64,666	108
United States .....	35,744	14,632	223	14,409	16,481	217
TOTAL	154,905	36,450	2,153	34,297	115,848	134

Table 6-5 (continued)

Country <sup>a</sup>	Production <sup>b</sup>	Exports <sup>c</sup>	Imports <sup>c</sup>	Net traded	Apparent consumption <sup>d</sup>	Ratio of production to consumption (percentage)
<i>Importers</i>						
Austria .....	613	12	191	-179	792	77
Belgium-Luxembourg ..	825	82	460	-378	1,203	69
Brazil .....	472	—	1,948	-1,948	2,420	20
Ceylon .....	—	—	311	-311	311	—
Costa Rica .....	—	—	47	-47	47	—
Cuba .....	—	—	129	-129	129	—
Dominican Republic ..	—	—	38	-38	38	—
El Salvador .....	—	—	37	-37	37	—
Finland .....	271	42	247	-205	476	57
Germany (Federal Republic) .....	4,393	759	2,243	-1,484	5,877	75
Rhodesia and Nyasaland .....	—	3	96	-93	93	—
Greece .....	1,749	—	67	-67	1,816	96
Guatemala .....	22	—	52	-52	74	30
Iceland .....	—	—	12	-12	12	—
India .....	9,348	—	3,644	-3,644	12,992	72
Indonesia .....	—	—	120	-120	120	—
Iran .....	2,763	—	148	-148	2,911	95
Ireland .....	394	30	263	-233	627	63
Israel .....	59	9	288	-279	338	17
Japan .....	1,409	34	2,619	-2,585	3,994	35
Korea (Republic of) ..	125	—	285	-285	410	30
Libya .....	27	—	89	-89	116	23
Netherlands .....	495	10	1,089	-1,079	1,574	31
New Zealand .....	224	—	202	-202	426	53
Nigeria .....	—	—	82	-82	82	—
Norway .....	20	—	325	-325	345	6
Peru .....	155	—	348	-348	503	31
Philippines .....	—	—	308	-308	308	—
Poland .....	2,364	—	1,536	-1,536	3,900	61
Portugal .....	643	—	107	-107	750	86
Sierra Leone .....	—	—	13	-13	13	—
South Africa .....	709	1	192	-191	900	79
Switzerland .....	349	—	325	-325	674	52
Tunisia .....	501	91	127	-36	537	93
UAR .....	1,451	6	1,227	-1,221	2,672	54
United Kingdom .....	2,875	7	4,828	-4,821	7,696	37
Venezuela .....	1	—	295	-295	296	—
TOTAL <sup>f</sup>	32,257	1,086	24,338	-23,252	55,509	58

Source: Bureau of General Economic Research and Policies of the United Nations Secretariat, based on Food and Agriculture Organization of the United Nations, *Production Yearbook, 1962* and *Trade Yearbook, 1962* (Rome); International Wheat Council, *World Wheat Statistics, 1961, 1962 and 1963*.

<sup>a</sup> Members of the International Wheat Council in 1962.

<sup>b</sup> Harvest year average.

<sup>c</sup> July/June year average; wheat, wheat flour in wheat equivalent; including trade on concessional terms.

<sup>d</sup> July/June year average; a minus sign designated net imports.

<sup>e</sup> Production minus exports plus imports with due allowance for stock changes wherever possible.

<sup>f</sup> Excluding Liberia, Saudi Arabia, Vatican City and Western Samoa.

Table 6-6. Sugar: Production and Trading Position of Exporting and Importing Countries Participants in the International Sugar Agreement, Average 1959-1961  
(Thousands of tons)

Country <sup>a</sup>	Production	Exports	Imports	Net trade <sup>b</sup>	consumption <sup>c</sup>	Ratio of production to consumption (percentage)
<i>Exporters</i>						
Australia .....	1,343	757	—	757	567	237
Belgium .....	393	117	67	50	334	118
Brazil .....	3,260	735	—	735	2,456	133
China (Taiwan) .....	889	748	—	748	120	739
Colombia .....	323	15	4 <sup>c</sup>	11	298	108
Costa Rica .....	62	19	—	19	37	166
Cuba .....	6,198	5,667	—	5,667	352	1,763
Czechoslovakia .....	957	390	97	293	551	173
Denmark .....	269	25	12 <sup>d</sup>	21	263	102
Dominican Republic ..	931	862	—	862	78	1,191
Ecuador .....	114	32	—	32	85	134
El Salvador <sup>e</sup> .....	48	66	—	66	42	114
France <sup>f</sup> .....	2,431	436	260	176	1,894	128
Guatemala .....	73	5	—	5	72	100
Haiti .....	60	25	—	25	34	176
Hungary .....	423	99	—	99	297	142
India .....	2,737	109	—	109	2,312	118
Indonesia .....	719	25	—	25	677	106
Italy .....	1,129	6	29	—23	1,098	103
Mexico .....	1,485	403	—	403	1,112	134
Netherlands <sup>f</sup> .....	607	78	180	—102	682	89
Nicaragua .....	64	29	—	29	38	170
Panama .....	27	4	—	4	23	117
Paraguay .....	32	7	—	7	28	113
Peru .....	770	522	—	522	260	297
Philippines .....	1,481	1,115	—	1,115	313	473
Poland .....	1,279	448	145 <sup>c</sup>	303	946	135
Portugal <sup>f</sup> .....	243	—	16	—16	254	95
South Africa .....	1,022	275	—	275	683	140
USSR .....	6,288	476	1,883	—1,407	6,846	92
TOTAL	35,657	13,495	2,685	10,810	22,752	157
<i>Importers</i>						
Canada .....	136	4	666	—662	799	17
Germany (Federal Republic) .....	1,648	25	162	—137	1,746	94
Ghana .....	—	—	60	—60	60	—
Greece .....	—	—	117	—117	111	—
Ireland .....	139	14	46	—32	163	86
Japan .....	165	16	1,261	—1,245	1,431	12
Lebanon .....	3	3	29	—26	30	10
Morocco .....	—	10	391	—381	383	—
New Zealand .....	—	1	121	—120	121	—
Nigeria .....	—	—	69	—69	70	—
United Kingdom ....	935	495	2,495	—2,000	2,912	32
United States <sup>f</sup> .....	4,632	5	4,271	—4,276	8,693	53
TOTAL	7,658	573	9,688	—9,125	16,519	46

Source: Bureau of General Economic Research and Policies of the United Nations Secretariat, based on International Sugar Council, *Sugar Yearbook*, 1962.

<sup>a</sup> Members of the International Sugar Council in the fiscal year 1962.

<sup>b</sup> A minus sign designates net imports.

<sup>c</sup> Average of two years.

<sup>d</sup> 1961.

<sup>e</sup> Average of crop years ending in 1959-1961.

<sup>f</sup> Including overseas departments, provinces, dependencies and associated countries. Trade excludes internal movements.

Table 6-7. Tin: Production and Trading Position of Exporting and Importing Countries Participants in the International Tin Agreement, Average 1959-1961

(Thousands of tons, metal content)

Country <sup>a</sup>	Production		Exports		Imports		Net trade <sup>b</sup>		Metal consumption	Ratio of total production to consumption (percentage)
	Concen- trates	Metal	Concen- trates	Metal	Concen- trates	Metal	Concen- trates	Metal		
<i>Exporters</i>										
Bolivia .....	21.6	1.4	20.2	1.4	—	—	20.2	1.4	—	—
Congo (Leopoldville) .	8.4	3.1	6.6 <sup>c</sup>	2.6 <sup>c</sup>	—	—	6.6	2.6	—	—
Indonesia .....	21.3	2.0	20.4	1.3	—	—	20.4	1.3	0.5	2.5
Malaya (Federation of)	49.3	68.1	31.2	67.4	16.6	—	34.6	67.4	0.1	0.1
Nigeria .....	7.1	—	7.2	—	—	—	7.2	—	—	—
Thailand .....	11.9	—	12.1	—	—	—	12.1	—	—	—
TOTAL	119.6	74.6	117.7	72.7	16.6	—	101.1	72.7	0.6	0.8
<i>Importers</i>										
Australia .....	2.4	2.3	—	—	—	1.3	2.4	—1.3	3.6	67.0
Austria .....	—	—	—	0.1	—	0.8	—	—0.7	0.7	—
Belgium .....	—	6.6	—	6.2	7.1	2.1	—7.1	4.1	2.5	264.0
Canada .....	0.3	—	—	—	—	3.9	—	—3.9	4.1	—
Denmark .....	—	—	—	0.1	—	4.6	—	—4.5	4.4	—
France .....	—	—	—	—	—	11.1	—	—11.1	10.9	—
India .....	—	—	—	—	—	4.3	—	—4.3	4.3	—
Italy .....	—	—	—	—	—	4.6	—	—4.6	4.6	—
Japan .....	0.9	1.4	—	—	—	11.3	—	—11.3	12.8	11.0
Korea (Republic of) ..	...	...	...	...	...	...	...	...	0.2	...
Mexico .....	0.4	0.7	—	—	—	0.7	—	—0.7	1.0	64.0
Netherlands .....	—	6.3	—	13.7	6.4	4.6	—6.4	9.1	3.2	197.0
Spain .....	0.3	0.4	—	—	—	0.3	—	—0.3	1.2	33.0
Turkey .....	—	—	—	—	—	0.9	—	—0.9	0.8	—
United Kingdom .....	1.2	26.2	—	15.9	24.3	1.8	—24.3	14.1	21.2	124.0
TOTAL	4.5	43.9	—	36.0	37.8	52.3	—40.2	—70.9	75.6	58.0

Source: Bureau of General Economic Research and Policies of the United Nations Secretariat, based on International Tin Council, *Statistical Bulletin* (The Hague).

<sup>a</sup> Members of the International Tin Council in June 1963.

<sup>b</sup> A minus sign designates net imports.

<sup>c</sup> Average 1959-1960. Excluding Katanga and South Kasai from July 1960.

The importance of the size and composition of membership is twofold.

In the first place, the effectiveness of an agreement tends to vary with the proportion of world trade that it covers; the larger the unregulated market the more difficult it becomes to ensure compliance with terms that may appear—to one side or the other—to be less advantageous than those that might be enjoyed, however temporarily, outside the agreement. As a corollary to this, the larger the coverage the smaller will be the proportional effect of accommodating a new member; and this tends to reduce the risk—a significant one in past experience—that the emergence of new, and sometimes lower-cost, producers might undermine the agreement.

And in the second place, the terms of the agreement are themselves likely to be more realistic and

enforceable if they represent some sort of consensus or compromise among all the interested parties. As such, the parties start off with greater willingness to abide by them than might be the case if there was a feeling that they had been imposed unilaterally by one side or the other.

Given the sense of common interest by exporter and importer and by producer and consumer in reducing the instability of the market and in determining the conditions for achieving this, the burden of administration is likely to be more equitably spread than it might otherwise be. This applies not only to the policing of the agreement but also to meeting the costs that use of the controlling instruments may involve and to the pursuit of domestic policies that are in accord with the broad objectives of the agreement.

*Commodity coverage*

Traditionally, stabilization agreements have dealt with primary commodities on an individual basis. However, the diversity that characterizes both the exporting and the importing groups—in respect of production costs and the relative importance of the particular commodity in trade, for example—suggests that the simultaneous negotiation of agreements for several commodities might facilitate the necessary compromises. It might be easier to reconcile conflicting interests if discussions covered a whole series of commodities at the same time, as is customary, for example, in negotiations for tariff reductions under the auspices of the General Agreement on Tariffs and Trade. If countries were likely to consider their interests as producers dominant in some instances and as consumers in others, as high-cost producers of some commodities and as low-cost producers of others, there might be a greater possibility of reaching compromises in the interests of all.

In the light of past negotiations of stabilization agreements, however, the possible advantages of a multi-commodity approach seem less clear-cut. The technical complexity of devising acceptable means of defining a particular commodity, of measuring its price on the market with sufficient speed and accuracy, of organizing instruments of control that are compatible with existing trade practices and institutions and then setting up permanent machinery for administering the arrangement is generally such as to throw doubt on the possibility of going through the process for several disparate commodities simultaneously. The analogy of tariff negotiations is probably a misleading one since the items for which stabilization arrangements are to be made are the very ones for which the history of tariff negotiations is least rewarding. The pattern of commodity trade is at present too highly canalized between primary exporting countries on the one hand and industrial importing countries on the other. In this trade, reciprocal concessions are much more difficult to achieve than in the case of the interchange of manufactures among industrial countries. It is unlikely that the interests of a primary exporting country in the one or two commodities which may dominate its exports would be modified by considerations relating to other commodities which play a negligible role in its economy. Moreover, the factors affecting stability and the methods available for reducing instability differ materially from case to case, as indeed do longer-run prospects. The problem of dealing with such diversity within a single framework would seem so complex that negotiation might well be hampered rather than assisted by an attempt to widen the coverage and construct stabilization machinery for several commodities at once.

Three exceptions to this generalization need to be pointed out. One concerns the special form of multi-commodity arrangement that has come to be known as compensatory finance: no insuperable technical difficulty would appear to stand in the way of smoothing out the short-term fluctuations either in the earnings of individual countries from all their commodity exports or in the price level of a major group of commodity exports.<sup>10</sup> Another concerns the sharing of various facilities and costs by bodies engaged in administering specific commodity agreements: for, notwithstanding the highly individualistic nature of much of the international action undertaken in this field, there are some common problems which might with advantage be handled jointly.<sup>11</sup>

The third case in which more than one commodity might be comprehended within a single agreement arises when there are close substitutes available. Here, not only would it be desirable to organize the market for all the commodities concerned, but an agreement which sought to stabilize the price of only one such item might be virtually unworkable. The "stabilized" commodity would attract demand from all the substitutes as long as its price was significantly lower and, contrariwise, lose demand to those substitutes when its price was higher. The agreement machinery would thus tend to find itself stabilizing the market not only for the commodity in question but for all its close substitutes as well, without any of the formal means of managing stocks or regulating the supply such as it might possess in respect of the one product it was designed for. Hence, it is probable that agreements for such groups as coarse grains, hard fibers, rubbers (synthetic types as well as natural), oil-seeds and soft oils, palm products, lead and zinc<sup>12</sup>—while more difficult to negotiate in the first instance—would provide a more effective system of stabilization than agreements based on individual component items.

## THE PROBLEM OF CONTROLLING INSTRUMENT

To hold the price of any commodity within a specified range requires some means of influencing the

<sup>10</sup> See United Nations, *Commodity Trade and Economic Development* (Sales No.: 54.II.B.1); *International Compensation for Fluctuations in Commodity Trade* (Sales No.: 61.II.D.3); "Stabilization of Export Proceeds through a Development Insurance Fund" (mimeographed document E/CN.13/43); "A Development Insurance Fund for Single Commodities" (E/CN.13/45); "Compensatory Financial Measures to Offset Fluctuations in the Export Income of Primary Producing Countries" (E/CN.13/56).

<sup>11</sup> One such problem is the financing of stabilization stocks, discussed briefly in the next section.

<sup>12</sup> Lead and zinc might have to be dealt with together—as they are in the present Study Group—not because of a high degree of inter-substitutability but because, often derived from a common ore body, they constitute a case of joint supply.

rate at which the commodity flows on to the market or the rate at which it is taken off and used. In the multilateral contract type of agreement, this influence is not exercised on a continuing day-to-day basis but rather at the time of original negotiation when exporters and importers bind themselves, respectively, to provide and absorb specified amounts of the commodity if the market price moves to the limits of the agreed range. In other types of agreement, the commodity flow is more actively influenced, at least as the market price moves closer to the specified limits.

As indicated earlier in this paper, the rate of off-take tends to be out of reach of the machinery normally at the disposal of a commodity agreement, at least in the short term. Generally, influence over demand has to be exercised in the narrow field of inventory changes. Such changes, in reverse, also furnish the agreement with its initial, direct means of influencing supply. In most cases, however, the agreement also possesses supplementary means of affecting supply—in the form of quota restraints on exports—at least in the one direction.

These controlling instruments constitute the operating core of the agreement. They are suspect to those who think that the market should not be subject to “interference” as well as to those who think that such power should not be exercised by an international body. And they are the object of some of the sternest bargaining when the agreement is originally negotiated. It is not surprising, therefore, that experience of their functioning is extremely limited: it is confined very largely to two far from typical cases, namely, under the agreements aimed at stabilizing the sugar and tin markets. Much of what can be said about the means and methods of exercising such control is consequently of an exploratory nature rather than in the form of a documented historical analysis. This is an area where, in the absence of definitive guidance from the past, the future would seem to call for a certain amount of experimentation.

#### *The management of stocks*

International control over stocks for purposes of market stabilization has taken two forms—a centralized buffer in the case of tin and a decentralized system of exporter-sited stocks in the case of sugar.<sup>13</sup>

The tin buffer has been managed independently under the general authority of the International Tin Council: selling has been mandatory above the price

ceiling and optional in the upper third of the specified price range and, correspondingly, buying has been mandatory below the price floor and optional in the lower third of the range. The stock has been financed entirely, in metal or cash, by the exporter members, at an outlay of approximately \$50 million. The buffer was built up in the course of the effort to retard the decline in prices after the end of 1956 and it reached its maximum in the third quarter of 1958. Even at this stage, it barely reached a third of commercial stocks (*see* chart 6-5). It was liquidated in the reverse process of holding down the rise in price during 1959 and 1960. Since then, it has played a very minor role; the stabilizing function fell to the United States strategic stockpile, though commercial stocks were also being drawn down through most of 1961, 1962 and 1963.

The buffer stocks of sugar are held by exporters as part of their obligation under the Agreement. Measured at the time of seasonal carry-over at the beginning of the crop year, that is, before the new harvest has started moving to the mill, their minimum has been fixed at between 10 and 15 per cent of basic export quota and their maximum at the equivalent of 20 per cent of the preceding year's production.<sup>14</sup> Under the 1958 Agreement, basic free market quotas were allocated to twenty-six of the thirty exporter members;<sup>15</sup> they totalled 6.6 million tons—about half of actual 1959-1961 average exports and a fifth of the 1959-1961 average output of the countries in question. The stock range was, therefore, from a minimum of about 820,000 tons to a maximum of about 6.6 million tons. Valued at 3.15 cents per pound—the lower limit of the stabilization range—the minimum outlay was thus of the order of \$57 million and the maximum almost \$470 million.

Most exporting countries managed to hold their carry-over stocks within the required range, though at the beginning of the period they dropped below the floor in a few cases—the Dominican Republic, Haiti and Peru, for example. The higher the export/production ratio, the greater the constraint exercised by such a formula: the permissible stock range was much narrower for such countries as China (Taiwan), Cuba and the Dominican Republic than for Brazil or Mexico, for example (*see* chart 6-6). This form of restriction seems to have been least applicable to the marginal net exporters: carry-over stocks in such countries as Denmark, India, Italy and the Netherlands were frequently above the limiting one-fifth of production.

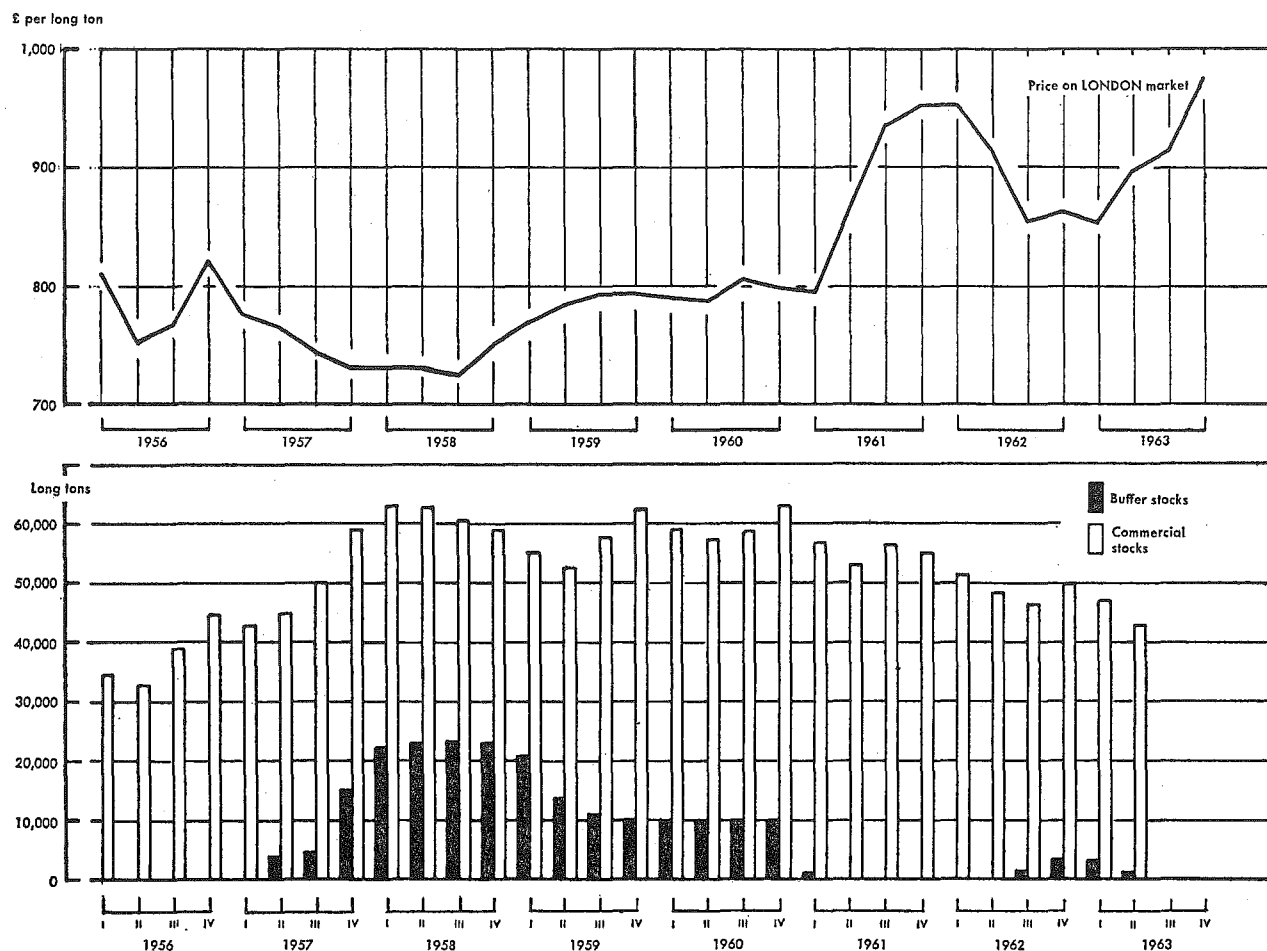
<sup>13</sup> Neither is operating at present—the tin buffer has been exhausted by sales and the sugar holdings are not now subject to the relevant clauses of the International Sugar Agreement, which have been suspended.

<sup>14</sup> Similar provisions (minimum carry-over of 10 per cent of quota and maximum, 25 per cent of production) had been included in the 1937 Agreement.

<sup>15</sup> Countries without quotas were Australia, El Salvador, Paraguay and the Republic of South Africa.



Chart 6-5. Tin: Movement in Prices and Stocks, 1956-1963



Source: International Tin Council, *Statistical Bulletin* (London).

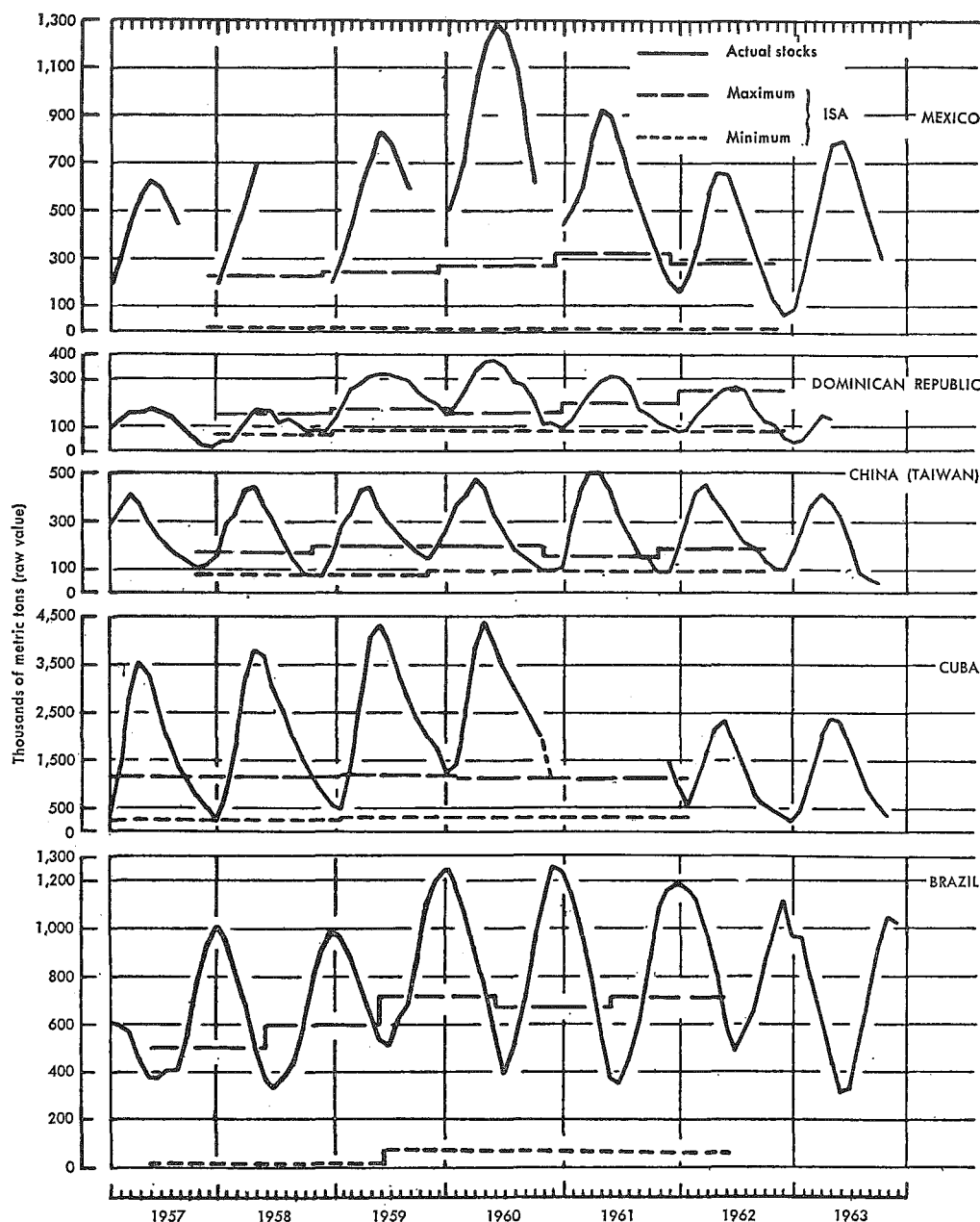
The function of a buffer stock is to accommodate the normal swings in demand and production. Such swings vary a good deal from one commodity to another, but the historical record should indicate the sort of fluctuations that can be expected. Assuming that the mid-point of the agreement price range is approximately equal to the equilibrium price at which all the available output would be absorbed, then, in principle, the required buffer would need to be at least large enough to make good an average shortfall or take in an average surplus of current production. In practice it would probably have to be appreciably larger, not only to allow for contingencies but—even more important—to be commercially credible. For no buffer is likely to succeed in defending a given price range unless buyers and sellers who operate in the market are convinced that it disposes of sufficient resources to enable it to achieve its purpose.

It is clear that neither the tin buffer nor the sugar buffer was large enough to satisfy this credibility criterion. These buffers were financed exclusively by exporting countries, but there would seem to be

no reason why buffer arrangements that serve an international purpose should not be a more general liability, to be borne by importing countries no less than exporters. An obligation similar to that contained in the Sugar Agreement might be accepted by importing countries, too: carry-over stocks would not be allowed to fall below a specified minimum while at the same time each country would stand ready to absorb additional stocks, up to a pre-determined maximum, related to consumption, perhaps, rather than production. Thus, while the total buffer would be substantially larger than those that have existed hitherto, the financial burden would be much more widely distributed.

Such an arrangement would require a certain amount of new machinery. Accurate inventory recording and reporting would be necessary (something that is generally lacking among commodities that have not yet been subject to some form of international organization) and participating governments would have either to equip themselves to discharge their stock-holding obligation physically or to contribute to the commodity council the equivalent re-

Chart 6-6. Sugar Stocks in Selected Countries: Actual and Maximum and Minimum under the International Sugar Agreement,<sup>a</sup> 1957-1963



Source: Bureau of General Economic Research and Policies of the United Nations Secretariat, based on United Nations, *United Nations Sugar Conference 1956, Summary Proceedings* (mimeographed document E/CONF.22/7) and *United Nations Sugar Conference 1958, Summary Proceedings* (E/CONF.27/6); International Sugar Council, *Statistical Bulletin* (London).

<sup>a</sup> Maximum stock equals 20 per cent of preceding crop; minimum stock represents 10 per cent of basic quota in 1957 and 1958, 12.5 per cent in 1959, 1960, 1961 and 1962. There was no agreement as to quotas for 1962/63.

sources for use in a centralized buffer or through a system of earmarking of stocks *in situ*. Some rules would also be required for the orderly liquidation of stocks in years of shortfall: the distribution of the buffer would not necessarily coincide with that of the shortfall.

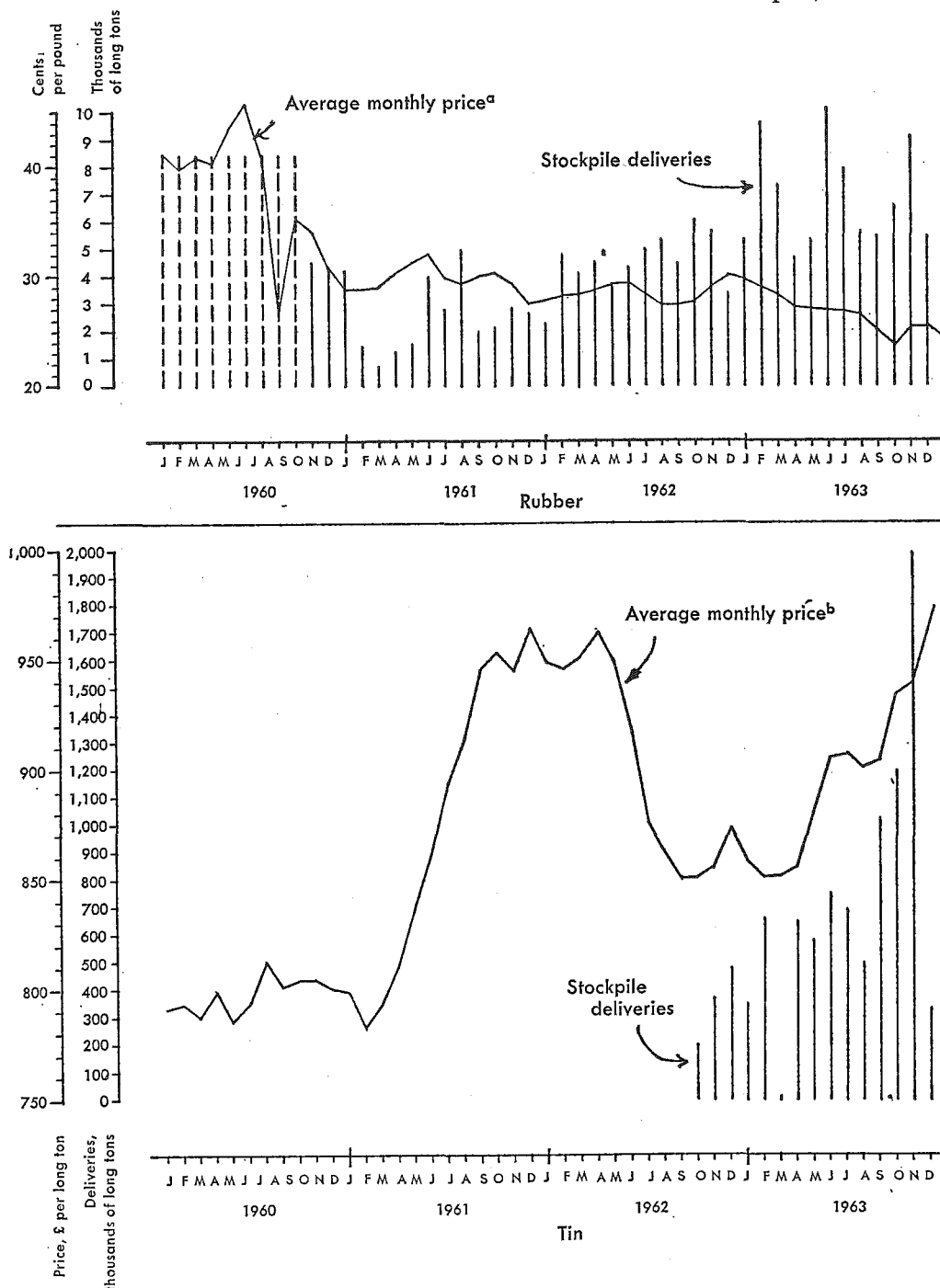
Stock management carried out in terms of commodity agreements would need to be integrated with the handling of national surpluses as influenced by internationally agreed disposable policies.<sup>16</sup> It was pointed out in the previous section that the efficacy

<sup>16</sup> Such as the FAO "Principles of Surplus Disposal".

of the Wheat Agreement, for example, depended in large measure on stock management by the major exporters, particularly the United States. The same situation has also emerged in the case of tin: disposals from the United States strategic stockpile are now fulfilling the stabilizing function that the

buffer pool was intended to serve. Sales rose from about 400 tons a month in the last quarter of 1962, when the London price averaged about £863 per long ton, to about 1,200 tons a month in the last quarter of 1963, when the price exceeded £950 a ton (see chart 6-7).

Chart 6-7. Releases of Rubber and Tin from United States Stockpile, 1960-1963



Source: Bureau of General Economic Research and Policies of the United Nations Secretariat, based on International Rubber Study Group, *Statistical Bulletin* (London); International Tin Council, *Statistical Bulletin*.

<sup>a</sup> New York, spot, No. 1 RSS.

<sup>b</sup> London, cash.

In 1963, a meeting of hard-fibre producers under the auspices of the FAO called upon the United States to use its disposals of sisal for an essentially similar stabilization purpose.

Since 1959, rubber has been moving from strategic stockpiles—chiefly in the United States, but on a smaller scale in Italy and the United Kingdom—in a way also originally calculated to stabilize the market: releases were to have been made at a rate varying with the price, ceasing when the market price dropped below 28 cents a pound (30 cents until 1962).<sup>17</sup> Releases reached 89,000 long tons in 1960 when the spot price of natural rubber (No. 1 RSS) on the New York market averaged the high figure of 38 cents a pound. Releases were cut to 26,000 tons in 1961 when the price averaged less than 30 cents a pound. Since then, however, releases and prices have moved in the opposite direction: while prices dropped below an average of 29 cents in 1962 and 26 cents in 1963, total disposals (including deliveries for defense contracts) rose to 56,000 tons in 1962 and 84,000 tons in 1963. During this period, thus, the stockpile was not serving a stabilizing function.

As suggested above, stock management is one of the areas in which it is likely to be more economical to approach the task of stabilization on a multi-commodity basis. In the post-war period there have been very few years in which commodity prices have all moved in one direction: apart from the Korean boom and collapse of 1951 and 1952, only in the years 1954, 1958 and 1959 was there any clear preponderance of increases or declines among the major items moving in world trade (*see* table 6-8). This indicates that in most years stock stabilization action—if spread widely over all the major primary commodities being traded—would tend to involve sales from the buffer and purchases for the buffer in more or less equal proportions, at least in number. Since a buffer operation consists in essence of a movement from cash into commodity and from commodity into cash, the total capital that is tied up by such operations would be reduced if the cash required for the acquisition of one set of commodities could be obtained from the simultaneous liquidation of stocks of another set.

In view of the key role of stock adjustment in making good temporary shortfalls in production or consumption and absorbing short-term surpluses arising from exceptional crops or other increases in output, the possibility of a co-ordinated approach to international stock management would seem to be worth careful exploration. The existence of un-

precedented stocks now awaiting disposal, an attempt to involve more countries in carrying part of the cost of buffer operations and the financial advantages that would flow from the development of machinery enabling offsetting buffer transactions to be appropriately married, might all be linked in the more purposeful use of stocks for commodity stabilization.

### *The regulation of production*

If the buffer were adequate in size, if stock management were efficiently carried out and if the price range that was being defended were realistic in terms of both level and width, market stability might be achieved without other types of action. In a dynamic world, however, in which patterns of demand are constantly changing and cost structures constantly being affected by technological developments and resource discoveries, the stabilization function could hardly be left to stock adjustments alone. Arrangements would have to be made for these to be backed by direct action on supply should the occasion arise.

Both the Tin Agreement and the Sugar Agreement have provision for control over supply by means of a system of export quotas.<sup>18</sup> The restraints on tin exports are designed to support and defend the buffer and come into effect at the instance of the Council when the buffer has accumulated 5,000 tons. They are adjustable quarterly and have the effect of dividing up—into previously determined national shares—what is estimated to be the probable off-take of the market in the period ahead. The restraints on sugar exports come into effect automatically when the price has been below the stabilization floor (3.25 cents per pound) for a given length of time: current quotas are then cut by 2.5 per cent (automatically) and a further 2.5 per cent unless the Council decides otherwise. If the price falls below 3.15 cents per pound, quotas may be reduced to 80 per cent of their basic level, at the discretion of the Council. Squeezed between the reduction in exports and the obligation to keep carry-over stocks below a given ceiling, exporting countries are under direct pressure to cut back production. In the case of tin, the pressure to cut back production is indirect: it derives from the cost of carrying stocks of concentrates or metal that cannot be exported. To the extent that producers do, in fact, build up their stocks during periods of export restraint, they are in effect enlarging the capacity of the buffer pool.

It is probably true that, in the absence of a persistent trend, it would be possible to defend a realistic price range for most commodities, in the face of normal fluctuations in supply and demand by

<sup>17</sup> Except for sales of deteriorated rubber and, in the United States, certain disposals for defence and for goods to be shipped for foreign aid.

<sup>18</sup> In the case of sugar, the Agreement controls are at present inoperative.

Table 6-8. Primary Commodities: Year-to-Year Change in Average Export Unit Value,<sup>a</sup> 1950-1962  
(Percentage)

Commodity	1951	1952	1953	1954	1955	1956	1957	1958	1959	1960	1961	1962	Average 1950-1962
Wheat	9	0	3	-14	-11	2	3	2	-2	-3	7	3	5
Rice	6	24	10	-18	-20	-3	0	6	-10	-3	0	1	8
Maize	37	5	-15	-14	2	-2	-8	-9	0	6	-6	-2	8
Barley	23	13	-23	-19	7	-5	-10	0	4	-8	8	8	11
Beef and veal	30	9	-12	6	-3	-7	5	14	15	4	-6	-5	10
Mutton and lamb	6	9	15	18	18	-5	8	-9	-13	4	-3	-2	9
Pork	22	-6	6	11	-4	5	2	3	-7	-11	12	1	7
Butter	8	8	1	1	-2	-3	-15	-18	40	-7	-14	6	10
Sugar	12	-5	-12	2	-4	0	22	-14	-6	-5	-2	9	8
Coffee	11	2	3	23	-21	1	-6	-13	-18	-3	-6	-7	9
Cocoa	28	-4	-4	66	-25	-33	0	54	-13	-21	-19	-6	23
Tea	9	-9	6	34	9	-14	0	-3	-1	2	-2	0	8
Tobacco	3	3	6	0	4	-3	9	-4	2	-2	-4	1	3
Bananas	-3	-3	3	0	0	3	0	-9	-7	-7	0	7	4
Oranges and tangerines	-4	0	-7	10	-3	22	8	-5	-18	5	8	-4	8
Olive oil	43	-25	0	-10	6	28	-8	-10	-16	3	3	10	14
Cotton-seed and oil <sup>b</sup>	32	-29	-1	-22	16	9	0	5	-15	-11	22	-5	14
Soya beans and oil <sup>b</sup>	31	-15	17	6	-12	-11	2	-13	-3	-6	22	-20	13
Ground-nuts and oil <sup>b</sup>	24	-4	5	-4	-15	13	4	-16	-5	9	2	-18	10
Linseed and oil <sup>b</sup>	14	12	-46	-23	24	40	-22	4	-7	10	-4	-2	16
Copra and coconuts <sup>b</sup>	13	-37	36	-10	-14	-4	-2	21	23	-16	-8	-5	16
Palm kernels and oil <sup>b</sup>	52	-5	-10	-10	-10	3	-3	-3	38	0	-19	-1	13
Palm oil	54	-27	-21	1	12	11	3	-9	0	-2	4	2	12
Wool	70	-46	13	-3	-12	2	16	-29	-6	9	-2	1	17
Cotton	40	-14	-23	7	-3	-8	0	-8	-14	7	4	0	11
Abaca	26	-30	-6	-21	-8	11	17	-4	24	16	-10	-2	15
Agave (sisal)	56	-12	-45	-14	-11	1	-11	-1	25	22	-10	1	17
Jute and allied fibres	34	-24	-30	5	2	-3	14	-7	-9	26	39	-27	18
Rubber, natural	64	-38	-28	-7	56	-10	-5	-14	28	12	-26	-3	24
Rubber, synthetic	10	0	7	-8	-19	-3	-7	-1	-2	0	0	0	5
Aluminium	13	10	2	-1	8	12	6	-3	-4	6	1	-4	6
Copper	33	14	1	-4	30	6	-29	-18	21	2	-6	2	14
Lead	43	-16	-27	-6	22	8	-15	-26	-1	2	-3	-9	15
Zinc	35	-15	-42	-7	17	10	-11	-23	13	19	-5	-6	17
Tin	59	-17	-21	-6	4	5	-2	-2	10	0	11	1	12
<i>Increases</i>													
Number	33	11	17	13	17	19	15	8	12	19	14	15	16
Average size percentage	29	10	8	14	14	10	8	14	20	9	10	4	12
<i>Declines</i>													
Number	2	22	18	21	18	15	18	26	21	15	19	18	18
Average size percentage	4	17	21	10	11	8	9	11	8	7	8	7	10

Source: United Nations, *Commodity Survey, 1962* (Sales No.: 63.II.D.3).

<sup>a</sup> The change between successive years expressed as a

percentage of the earlier figure.

<sup>b</sup> The average unit value has been calculated in terms of oil equivalent.

means of stock management at something less than prohibitive cost.<sup>19</sup> Nevertheless, no international agreement is ever likely to involve an open-ended commitment on the part of members to finance a

<sup>19</sup> The exceptions to this would be the commodities for which handling and storage problems are particularly difficult—because of perishability or bulk, for example.

stockpile obliged to acquire all supplies offered to it at the lower price of the stabilization range. To be acceptable, the commitment would probably have to be a limited one: resources to be devoted to stock accumulation would have to be subject to some absolute ceiling, and arrangements would have to exist for lowering the stabilization price range and

for limiting the flow of exports of the commodity on to the world market and, in the last resort, for restricting production also.

Of these restraints only the last one represents a new departure—in the sense that in the post-war period no international agreement has incorporated a formal or direct system of production quotas. The usual approach has been that of the Sugar Agreement which, as indicated above, has applied an indirect restriction on output through the simultaneous use of export quotas and stock limitation. The weakness of this method of control lies partly in the difficulty of fixing stock obligations in a way that will not only provide a large enough buffer to accommodate fluctuations of ordinary amplitude but will also result in an upper limit low enough to exert the required pressure on exporters to cut back their production. But, related to this—and perhaps more important from the international point of view—is the fact that this method of regulating supply concentrates both the financial burden of carrying the buffer and the complicated physical and economic burden of organizing production cuts on the exporting countries, which often have the least flexible economies and the greatest difficulty in bringing about structural adjustments in employment.<sup>20</sup>

It would be preferable if international stabilization measures were premised on a more balanced view of the world market. If the world market is

<sup>20</sup> The International Coffee Agreement recognizes this problem and in chapter XI makes provision for the setting of productive goals and for enlisting the co-operation of importing countries in their attainment.

to operate satisfactorily—from the standpoint of importers as well as that of exporters—the responsibility rests on all the parties who use it. When a structural imbalance is revealed—by a persistent trend in stocks or prices or both—it is by no means always the case that it has been caused by exporting countries. Hence, if structural adjustments are to be made, through international machinery, the arrangements that exist should not have the effect of limiting them to what can be achieved by those exporting countries. The onus would appear to be a common one, with all who deal on the world market—whether as buyer or as seller—sharing in the task of restoring balance. Equity aside, moreover, production costs are generally lower in exporting countries than in net-importing countries—where primary commodities are often produced behind a protective barrier—so that on grounds of efficient resource allocation also, cuts that prove to be necessary should at least be spread among all producers.

Of the stabilization schemes that have been in operation in the post-war period, only the early multilateral contracts for wheat spread the burden of adjustment over all parties. Net-importing countries committed themselves to a pre-determined level of purchases at the minimum price; in so far as a decline in price was induced by expansion in output in the net-importing countries, the result was not necessarily a cut-back in exporting countries enforced by reduced sales. For commodities that are produced in significant quantities in importing countries, schemes that rely on export quotas to bring about a reduction in supply tend to result in a less efficient and a less equitable distribution of the adjustment burden.

### Stabilization: The interests of the developing countries

While it is in the industrial countries that the most elaborate machinery for stabilizing primary commodity markets has been built up, it is in the less developed countries that the need for primary commodity stability tends to be greatest. This need reflects the continuing dependence of most developing countries not only on the proceeds of exports of primary commodities as such—90 per cent of their export earnings are derived in this way—but typically on an extremely narrow range of such products.

Though the degree of concentration of exports on particular primary commodities has declined in some of the developing countries—most notably in Brazil, Nigeria, Peru and Thailand—it has increased in others, including Argentina, Kenya, Iraq, Indonesia, Morocco, Rhodesia and Uruguay. Even among the larger trading countries there are still very few that

obtain less than half their export earnings from their three principal products. Over half of the major primary exporting countries derive more than 70 per cent of their earnings from three items and about one-third derive more than 80 per cent in that way (see table 6-9). And among the smaller trading countries, monoculture tends to be more prevalent and the extent to which export earnings depend on the market for one or two commodities is even greater.

This is not to say that instability is a peculiar characteristic of the markets on which exports from the developing countries are sold. As indicated at the beginning of this chapter instability characterizes the markets for most primary commodities, irrespective of their source. The essential point is the vulnerability of the developing countries that

Table 6-9. Primary Exporting Countries: Concentration of Exports, 1936-1938, 1953-1955 and 1959-1961

Country	Percentage of total exports <sup>a</sup> accounted for by three principal commodities in:			Commodities in 1959-1961
	1936-1938 <sup>b</sup>	1953-1955 <sup>c</sup>	1959-1961 <sup>d</sup>	
Argentina .....	81	71	86	Meat, cereals and wool
Australia .....	68	63	60	Wool, wheat and meat
Bolivia .....	74	82	74	Tin ore, lead ore and tungsten ore
Brazil .....	69	81	65	Coffee, cocoa and cotton
Burma .....	81	82	79	Rice, teakwood, metals and ores
Ceylon .....	91	90	90	Tea, rubber and coconut products
Chile .....	74	80	76	Copper, nitrates and wood
China (Taiwan) .....	...	80	54	Sugar, fruit and rice
Colombia .....	90	97	92	Coffee, petroleum, vegetable seeds, oils, fruits and nuts
Congo (Leopoldville) ...	74	79	74	Metals and ores and coffee
Costa Rica .....	98	93	82	Coffee, bananas and cocoa
Cuba .....	91	94	86	Sugar, tobacco and metallic ores
Ghana .....	91	85	84	Cocoa, diamonds and manganese ore
Guatemala .....	88	91	69	Coffee, bananas and cotton
Haiti .....	72	91	75	Coffee, sisal and sugar
Honduras .....	87	76	66	Bananas and coffee
India .....	...	29	26	Tea, fibres and cashew nuts
Indonesia .....	53	66	78	Rubber, petroleum, oil-seeds and oils
Iran .....	...	41	57	Crude petroleum, cotton and dried grapes
Iraq .....	81	96	98	Crude petroleum, dates and barley
Ivory Coast .....	...	...	91	Coffee, cocoa and wood
Jamaica .....	...	88	63	Metalliferous ores, sugar and bananas
Kenya .....	51	52	68	Coffee, sisal and tea
Malaya <sup>e</sup> .....	71	62	64	Rubber and tin
Mexico .....	34	65	42	Cotton, non-ferrous metals and concentrates and coffee
Morocco .....	36	45	49	Minerals, citrus fruits and wheat
New Zealand .....	87	86	84	Wool, meat and dairy products
Nigeria .....	87	74	69	Oil-seeds and oil, cocoa and tin concentrates
Pakistan .....	...	86	58	Jute, cotton and wool
Peru .....	80	64	63	Non-ferrous metals and ores, cotton and sugar
Philippines .....	79	79	70	Coconut products, sugar and timber
Rhodesia and Nyasaland <sup>f</sup> .....	75	81	82	Copper, tobacco and asbestos
South Africa .....	84	56	52	Gold, wool and diamonds
Sudan .....	75	73	81	Cotton, gum arabic and ground-nuts
Thailand .....	80	78	68	Rice, rubber and tin ore
Tunisia .....	44	43	43	Phosphates, olive oil and wheat
Turkey .....	42	58	52	Tobacco, cotton and hazel nuts
Uganda .....	79	86	79	Cotton and coffee
UAR .....	78	87	78	Cotton and rice
Uruguay .....	70	80	81	Wool, meat, hides and skins
Venezuela .....	95	98	98	Petroleum, iron ore and coffee

Source: Bureau of General Economic Research and Policies of the United Nations Secretariat, based on United Nations, *Yearbook of International Trade Statistics and Commodity Survey, 1957* (Sales No.: 58.II.D.1).

<sup>a</sup> National, indigenous or special exports, except in Bolivia and Iraq in 1936-1938, Philippines and Pakistan in 1953-1955, New Zealand and Pakistan in 1959-1961, and for all three periods in Malaya.

<sup>b</sup> 1936-1937 for Uruguay, 1937-1938 for Bolivia, Burma, Iraq, Mexico and Tunisia,

1937 for Honduras, 1938 for Kenya. Excluding exports to Sudan in the case of the United Arab Republic.

<sup>c</sup> 1953-1954 for South Africa, 1955-1956 for Argentina.

<sup>d</sup> 1958-1960 for Brazil, Cuba, Ghana, Tunisia, and Turkey, 1958-1959 for Congo (Leopoldville), 1959-1960 for Iran and Peru.

<sup>e</sup> Including Singapore, but excluding intra-trade between Singapore and the Federation of Malaya.

<sup>f</sup> Excluding trade among Northern Rhodesia, Southern Rhodesia and Nyasaland.

flows from the combination of three circumstances: the vital role played by exports in the economies of most of these countries; the high degree of concentration on a small number of primary commodities among the exports of individual countries, and the generally high degree of instability that characterizes the markets for these commodities.

In many developing countries, export activities play a vital role in the monetization of the subsistence economy, in providing employment, in extending the division of labour, in creating a local market for food-stuffs and other wage goods and in providing the Government with a sizable proportion of its revenue. In almost all developing countries, export activities furnish the foreign exchange upon which the acquisition of capital goods—and hence the process of investment—directly depends. Fluctuations in the markets for export products are thus potentially very disruptive. They give rise to corresponding instability in employment and incomes and they tend to undermine sound fiscal policies. They cause irregularities in the flow of imports in general and of investment goods in particular, and they tend to reduce the credit-worthiness of the country in the eyes of foreign lenders.

International action to stabilize the price of a given commodity would serve to moderate one of the factors (and the most potent one in most cases) causing fluctuations in the foreign exchange earnings of the developing countries that export it. Price stability, however, is a less important objective than stability in proceeds. And the fact that stabilization of price does not automatically stabilize earnings adds to the importance of the methods used, especially in so far as these many involve adjusting supply. It was suggested above that, in principle, such adjustments should be distributed as widely as possible; when the net-exporting countries are largely the developing countries, the desirability of spreading cutbacks, if these are necessary, over all producing countries becomes so much the greater.

For commodities drawn largely or entirely from the developing countries, this problem of adjustment of supply in the short run is one aspect of the more

general and longer-run question of ensuring the maximum amount of flexibility in the administration of the controlling instrument, especially in the determination of export quotas. While, as a matter of broad objective, it would generally be desirable to avoid freezing the pattern of production in a particular historical mould and to make adequate provision to accommodate low-cost production—whether from new sources or from the expansion of older sources—rigid formulas to this end are unlikely to prove easily workable. The rate at which a high-cost source can reasonably be expected to cut back depends very much on the availability and nature of alternative activities for the released factors: this is a matter that is neither similar from country to country nor readily measurable. Perhaps the most that can be done would be to provide the international body administering the agreement with funds that might be used to ease the burden of re-deploying factors in developing countries in which, in the interests of over-all market equilibrium, production is to be reduced.<sup>21</sup>

While problems of this nature have to be taken into account, too much importance should not be attached to them: flexibility for optimum growth patterns is an essential for any viable agreement, but the need to curtail production for anything other than temporary adjustment is not likely to arise very frequently. For the developing countries a relatively firm world market price would go a long way towards preventing the disconcerting reductions in export earnings that have so frequently occurred in the past. If accompanied by a determination on the part of net-importing countries to maintain rates of expansion in demand and to share equitably in any short-term adjustment in stocks or supply that may be necessary to preserve balance on the world market, then such price stabilizing measures would provide a most useful form of support for the external resources for domestic development programmes.

<sup>21</sup> A parallel to this exists in the European Steel and Coal Community which has used central resources to assist in the closing down of redundant high-cost collieries in member countries.



**Section III**

**TRADE IN MANUFACTURES AND SEMI-MANUFACTURES**



## Chapter 7

### MEASURES FOR THE EXPANSION OF MARKETS OF THE DEVELOPED COUNTRIES FOR EXPORTS OF MANUFACTURES AND SEMI-MANUFACTURES OF DEVELOPING COUNTRIES

It has come to be widely recognized that the rate of growth in export earnings of the developing countries is of strategic importance for their internal development; and in view of the limited prospects for the substantial expansion of traditional exports of primary commodities, attention has been increasingly turning to exploration of the possibilities for the rapid enlargement of exports of manufactures.

At present, as described in more detail below, the volume of exports of manufactures from the developing countries is small. This is so whether the comparison is made with total exports from these countries or with world trade in manufactures. Of course, it is quite certain that, in the course of time, the exports of most developing countries will be increasingly dominated by manufactures rather than, as at present, by primary commodities. Such a transformation of the export structure has been a familiar characteristic of the economic history of most countries which have advanced from low-income, primary producing economies to high-income, industrial economies. The significant question, however, is whether this transformation will take place at a pace sufficient to ensure an adequate rate of domestic growth in the developing countries.

Economic growth and the expansion of exports of manufactures are, to some extent, interrelated issues. On the one hand, an adequate rate of expansion in exports of manufactures depends partly on the pace of industrial growth in developing countries; for exports can be continuously expanded only if industrial capacity is steadily enlarged. On the other hand, the pace of industrial growth depends partly on the dynamism achieved in export earnings; for the ability to expand industrial capacity is

related to the ability to import capital equipment. But this interrelation is flexible and, at many points, it may be considerably modified by the nature of the policies pursued in both developing and developed countries.

Among the developing countries, industrial policies during the earlier post-war years tended to concentrate heavily upon the development of import-substituting industries and to neglect the question of production for export. The mounting awareness of the need for a sustained expansion in export earnings, however, has contributed to a modification in attitude. Further, it has been borne in upon many of these countries that, in view of the limited size of their domestic markets, the enlargement of the market through exports is a condition for the achievement of optimum levels of production in some important branches of industry. Interest both in the expansion of exports of manufactures to developed countries and in the formation of economic groupings with other developing countries has therefore grown.

There is no doubt that the difficulties confronting the developing countries, in the enlargement of their exportable supplies of manufactures and in the creation of conditions more favourable to the expansion of intra-regional trade, are formidable. These difficulties and the means by which they may be overcome are discussed at length elsewhere in the present report. However, the possibilities for a substantial acceleration in the growth of exports of manufactures from the developing countries also depend heavily on the commercial policies pursued by the developed countries. The nature of the obstacles at present posed by these policies and the measures which might be taken to overcome them constitute the main subject of the present chapter.

#### Salient features of exports of manufactures from the developing countries

By far the most obvious feature of the recent export trade of developing countries in manufactures

is, of course, that its magnitude is small. In 1961, total exports of manufactures<sup>1</sup> from all the de-

<sup>1</sup> Unless otherwise stated, exports of manufactures as defined for purposes of this chapter exclude processed food-

stuffs and base metals. For details on items included, see foot-note *a* to table 7-1.

veloping countries amounted to \$2.6 billion. This may be compared with a value of world trade in manufactures during the same year of \$62.3 billion (*see* table 7-1). Exports from the developing countries thus accounted for only about 4 per cent of world trade in manufactures. Being overshadowed by the growth in trade of the developed market economies and of the centrally planned economies, the share in world trade of the developing countries has actually declined somewhat in recent years. By 1961, world exports of manufactures were about \$25 billion greater than they had been in 1955; only about \$0.8 billion of this increase was accountable for by greater exports from the developing countries. Still, by virtue of the small initial size of exports, this increase between 1955 and 1961 marked an annual rate of growth of 6.5 per cent. While this was less dynamic than the growth in world exports of manufactures, it was certainly a better performance than that recorded by exports of primary commodities from the developing countries; over the same period, these exports increased annually by only 2.2 per cent.<sup>2</sup>

The small value of exports from the developing countries as a whole broadly reflects the relatively unindustrialized state of their economies. By the same token, it could be expected that the more industrialized among these countries would account for the greater part of such exports. As a rough generalization, this is true. But the more striking point as regards the origin of exports is the degree of their concentration in a few sources. Some hint of this is evident at the regional level. In 1961, for

example, Asia alone accounted for almost three-quarters of the total exports of manufactures from all the developing areas; the remainder originated in about equal proportions in Africa and Latin America (*see* table 7-2).

The point, however, emerges much more sharply when data for individual countries are examined. In 1962, for example, 47 per cent of the total value of manufactured goods supplied from the developing countries to the developed market economies originated in two Asian members of the former group—namely, Hong Kong and India (*see* table 7-3).<sup>3</sup> Even though there is a huge difference in the economic size of these two developing economies, supplies of manufactures from the former were roughly equal to \$400 million<sup>4</sup> and from the latter to \$370 million. The third and fourth largest suppliers, Israel and Mexico, each provided manufactured goods valued at about \$100 million. Two other Asian countries, Iran and the Philippines, together supplied about \$110 million. Next in importance were Pakistan, China (Taiwan), Argentina and Brazil—in that order—which supplied manufactured goods amounting in total to about \$130 million. Altogether, these ten countries accounted

<sup>3</sup> It should be noted that the data in table 7-3 are not strictly comparable to those in the preceding tables. They pertain to 1962 because only for this year are the necessary details available. Furthermore, they are based on c.i.f. import values of the developed market economies which are usually about one-tenth higher than f.o.b. values. These factors do not, however, affect the broad conclusions in any way.

<sup>4</sup> Re-exports are usually a significant part of total exports from Hong Kong. For example, of the total exports of manufactures from the territory to the rest of the world in 1962, nearly 21 per cent were re-exports. *See* Hong Kong, *Trade Statistics*, December 1962.

<sup>2</sup> *See* chapter 1 of the present report.

Table 7-1. World: Exports of Manufactures, by Origin, 1955 and 1961<sup>a</sup>

Exporting group <sup>b</sup>	Amount (billions of dollars)		Index, 1961 (1955 = 100)	Percentage distribution	
	1955	1961		1955	1961
World .....	37.8	62.3	165	100	100
Developed market economies.....	32.0	52.0	162	85	83
Developing market economies.....	1.8	2.6	146	5	4
Centrally planned economies.....	3.9	7.7	196	10	12

Source: United Nations, "Handbook of International Trade Statistics" (mimeographed document E/CONF.46/12/Add.1).

<sup>a</sup> Data refer to f.o.b. values for the following items. Numbers in parentheses represent the code of the Standard International Trade Classification (SITC): Chemicals (5); Machinery and transport equipment (7); Other manufactures excluding base metals (6 and 8, excluding 67 and 68 but including 681).

"Special category" exports of the United States are excluded. Components do not always add up to totals because of rounding.

<sup>b</sup> *Developed market economies*: North America, western Europe, Australia, Japan, New Zealand and South Africa. *Centrally planned economies*: Union of Soviet Socialist Republics, eastern Europe, Yugoslavia, mainland China, Mongolia, North Korea and North Vietnam. *Developing market economies*: rest of the world.

Table 7-2. Developing Market Economies: Geographical Distribution of Exports of Manufactures, 1961<sup>a</sup>

Exporting group	Importing group								
	World	Developed market economies				North America	Other	Developing market economies	Centrally planned economies
		Total	Western Europe						
			Total	EEC	EFTA				
Amount in millions of dollars									
Developing market economies....	2,640	1,350	710	270	415	500	135	1,150	82
Asia .....	1,945	905	412	122	283	369	113	928	59
Africa .....	325	200	180	63	110	7	15	105	18
Latin America .....	325	220	96	83	12	110	3	75	4
Percentage distribution									
Developing market economies....	100	51	27	10	16	19	5	44	3
Asia .....	100	47	21	6	15	19	6	48	3
Africa .....	100	62	55	19	34	2	5	32	6
Latin America .....	100	68	30	26	4	34	1	23	1

Source: See table 7-1.

<sup>a</sup> See foot-notes a and b to table 7-1 for definitions. Totals include "unallocated" trade which is not shown separately.

The abbreviations EEC and EFTA refer to the European Economic Community and the European Free Trade Association, respectively.

for three-fourths of the supplies of manufactured goods from the developing countries to the developed market economies. Even more telling is the fact that seventy-nine of the other developing countries together provided only 6 per cent of the supplies, the contribution in no single case equalling even \$5 million.

This analysis bears out that the bulk of the exports of manufactures of the developing countries come from those with more industrialized economies. The volume of exports of manufactures from individual countries, however, is obviously not related in any

simple fashion to the degree of industrialization. The development of an export trade in manufactures has usually been initiated on the basis of a very limited range of products, and success in establishing export markets for specific products has generally been related to the existence of favourable local circumstances, such as the existence of particular natural resources or of a local tradition of certain skills. The sizable exports of manufactures from Iran and the Philippines, for example, are largely the outcome of such special circumstances; this is indicated by the fact that most of the exports from the former country consist of carpets and from the latter of wood veneers and special textile products. In addition, the relation between the stage of industrialization and the relative importance of exports of manufactures has been influenced, in differing degrees, by governmental economic policies.

Though less striking than the fact that the bulk of the exports originate in relatively few countries, there is also some tendency towards the concentration of these exports in relatively few foreign markets. This only becomes apparent when trade flows at a broad level of aggregation are analysed in greater detail. At the broad level, the destination of exports appears to be quite widely distributed. In 1961, for instance, about 51 per cent of total exports from the developing countries went to the developed market economies, about 44 per cent was absorbed in intra-trade among the developing economies and about 3 per cent was exported to the centrally planned economies (see table 7-4). However, when these trade flows are scrutinized in greater detail, the evidence of concentration becomes stronger. Thus, of the total exports of \$1,350 million exported to the developed market economies in 1961, about

Table 7-3. Developing Market Economies: Country Distribution According to Value of Manufactures Supplied to Developed Market Economies, 1962<sup>a</sup>

Amount supplied (millions of dollars)	Number of developing market economies	Group total (millions of dollars)	Percentage distribution	
			Number of developing market economies	Group total
350 and more.....	2	774	2	47
100-350 .....	2	203	2	12
50-100 .....	2	114	2	7
25-50 .....	4	132	3	8
5-25 .....	29	330	25	20
Less than 5.....	79	91	67	6
TOTAL	118	1,643	100	100

Source: Bureau of General Economic Research and Policies of the United Nations Secretariat, based on data from official sources.

<sup>a</sup> See foot-notes a and b to table 7-1 for definitions of manufactures and of developing countries. It should be noted that the data in the present table are based on c.i.f. import values of developed market economies. Components do not always add up to totals because of rounding.

\$915 million was shipped to the EFTA countries and North America; and by far the greater part of the exports to these two areas was absorbed by the United Kingdom and the United States. Again, of the \$1,150 million of manufactures exported by developing countries to each other, over \$900 million originated in Asian countries and the bulk of these exports were destined for other countries within the region (*see* table 7-2).

With one important exception, the structure of the trade flows of manufactures from the developing countries has not altered markedly in recent years. Of the total increase in exports to the developed market economies between 1955 and 1961, North America absorbed about \$195 million, the EFTA countries about \$175 million and the EEC countries about \$110 million. The increase in exports to the centrally planned economies over the same period was about \$33 million. The main change in trade flows over the period came in the decline in relative importance of trade among the developing countries themselves. The share of intra-trade in total exports of these countries fell from 50 per cent in 1955 to 44 per cent in 1961. The sluggishness of trade in manufactures among the developing countries was, in fact, the main reason why total exports of these countries increased more slowly between 1955 and 1961 than did world trade in manufactures. It was not intra-trade but exports to the developed market economies that constituted the main dynamic element in total exports of manufactures from the developing countries. However, it should also be noted that the rate of growth in their exports to the developed market economies was substantially below the rate of growth in trade among the developed economies themselves (*see* table 7-4).

These trends in trade flows of the developing countries have been closely related to another outstanding characteristic of their exports of manufactures. This is the preponderance in their export trade of a limited range of products, notably, textiles and various products of light industry usually classified as miscellaneous manufactures. As is evident from table 7-5, manufactured goods other than chemicals, machinery and transport equipment<sup>5</sup> have accounted for more than four-fifths of total exports of manufactures to the developed market economies.<sup>6</sup> Much of the increase in recent years, in fact, has been contributed by the most traditional item of manufactured exports, namely, textiles. Since these

traditional items are so predominant, it is obviously their rate of expansion which governs the rate of increase of total manufactured exports from the developing countries. Even though exports of machinery and transport equipment<sup>7</sup> have registered the highest rate of increase, their share in the total is too small to contribute a significant part of the total increase. By and large, this category consists of simple types of power machinery.<sup>8</sup> Exports of chemicals, also of simple types, have shown no dynamism at all; their share in the total exports of manufactures from the developing countries declined from 15 per cent in 1955 to 13 per cent in 1961.

By itself, this analysis at the level of broad groups of products is suggestive but not conclusive. Each broad group comprises a wide range of products. However, the conclusion that a very limited range of products is actually exported finds ample support from more detailed analysis. By comparison with table 7-5, the data contained in tables 7-6 and 7-7 refer to much more specific classes of products.<sup>9</sup> It is readily evident that two-fifths of manufactured goods imported by the developed market economies from the developing countries in 1962 consisted of only four items; three of these items were different types of textiles, and the fourth item comprised pearls and precious stones which could be characterized only marginally as industrial products. Floor coverings—mostly carpets—and tapestries were the fifth largest item, accounting for 6 per cent of exports. The ten largest items, whose individual values equalled or exceeded \$50 million, formed the content of nearly two-thirds of total exports. And if the list is enlarged to include items whose value amounted to \$20 million or more—altogether twenty-one items—nearly nine-tenths of the trade is accounted for. The dominance of various textile goods, wood products, leather and

important in total exports of manufactures than in the exports to the developed market economies alone.

COMPOSITION OF TOTAL EXPORTS OF MANUFACTURES FROM THE DEVELOPING MARKET ECONOMIES<sup>a</sup>

Year	(Percentage)			
	Total manufactures	Chemicals	Machinery and transport equipment	Other manufactures, excluding base metals
1955 ....	100	13	7	80
1961 ....	100	12	9	79

Source: See table 7-1.

<sup>a</sup> See foot-notes *a* and *b* to table 7-1.

<sup>7</sup> Section 7 of SITC.

<sup>8</sup> This category includes ships and boats, the total value of which is quite large. It should be noted, however, that most of this trade consists of re-exports.

<sup>9</sup> These tables are derived from the import returns of the developed market economies. See foot-note 3.

<sup>5</sup> Sections 6 and 8 of SITC, with some exceptions.

<sup>6</sup> The composition of exports of manufactures from the developing countries to the developed market economies is not very different from the composition of their total exports of manufactures. A point of interest, however, which emerges from a comparison of the following data with those in table 7-5, is that machinery and equipment are more

Table 7-4. World: Expansion of Exports of Manufactures, by Origin and Destination, 1955 and 1961<sup>a</sup>

<i>Exporting group</i>	<i>Importing group</i>			
	<i>World</i>	<i>Developed market economies</i>	<i>Developing market economies</i>	<i>Centrally planned economies</i>
<i>Index, 1961 (1955 = 100)</i>				
World .....	165	179	139	193
Developed market economies ....	162	180	134	239
Developing market economies ..	146	161	126	167
Centrally planned economies ....	196	188	335	182
<i>Percentage distribution</i>				
World				
1955 .....	100	53	33	10
1961 .....	100	58	27	12
Developed market economies				
1955 .....	100	59	34	2
1961 .....	100	65	29	3
Developing market economies				
1955 .....	100	46	50	3
1961 .....	100	51	44	3
Centrally planned economies				
1955 .....	100	11	8	80
1961 .....	100	10	14	74

Source: See table 7-1.

<sup>a</sup> See foot-notes a and b to table 7-1 for definitions.Table 7-5. Developing Market Economies: Pattern of Exports of Manufactures to Developed Market Economies Compared with Latter Group's Pattern of Import Demand, 1955 and 1961<sup>a</sup>

Item	Total manufactures	Chemicals	Machinery and transport equipment	Other manufactures excluding base metals (6 and 8, excluding 67 and 68 but including 681)		
				Total	Textiles	Other
<i>Exports of manufactures from developing market economies to developed market economies</i>						
Index, 1961 (1955 = 100)...	161	136	232	162	176	153
Composition (percentage)						
1955 .....	100	15	3	82	33	49
1961 .....	100	13	4	83	36	47
<i>World exports of manufactures to developed market economies</i>						
Index, 1961 (1955 = 100)...	179	177	201	162	146	167
Composition (percentage)						
1955 .....	100	13	40	46	13	34
1961 .....	100	13	45	42	10	31

Source: See table 7-1.

<sup>a</sup> See foot-notes a and b to table 7-1 for definitions.

Table 7-6. Developed Market Economies: Distribution of Imports of Manufactures from Developing Market Economies, 1962<sup>a</sup>

Value (millions of dollars)	Number of items	Total value (millions of dollars)	Percentage distribution	
			Number of items	Total value
100 or more.....	4	653	5	40
90-100 .....	1	93	1	6
80-90 .....	—	—	—	—
70-80 .....	—	—	—	—
60-70 .....	3	197	4	12
50-60 .....	2	109	3	7
40-50 .....	2	94	3	6
30-40 .....	3	106	4	6
20-30 .....	6	161	8	10
10-20 .....	5	74	6	5
0-10 .....	51	157	66	10
Of which:				
5-10 .....	15	113	19	7
1-5 .....	16	33	21	2
Less than 1.....	20	11	26	1
TOTAL	77	1,643	100	100

Source: See table 7-3.

<sup>a</sup> Data based on three-digit SITC code. See also foot-note a to table 7-3.

other equally traditional products is evident throughout this list. At the other end of the scale are as many as fifty-one items—or two-thirds of all the items covered—which contributed a mere one-tenth of total imports of manufactures of the developed market economies from the developing countries. Indeed, if the data were examined for the developing countries individually rather than as a group, the lack of diversification would appear even more forcefully. With the exception of Hong Kong and India, manufactured exports of the developing countries are confined to an extremely narrow range of products.

The predominance of textiles and other light manufactures has clearly been important in determining the past performance of total exports of manufactures from the developing countries. In the import demand of the developed market economies, the greatest expansion has been taking place in demand for machinery and equipment, while the relative importance of textiles and miscellaneous manufactures has been declining (*see* table 7-5). Thus, the principal classes of products exported by the developing countries have been among the least dynamic elements in import demand of de-

Table 7-7. Developed Market Economies: Imports of Manufactures from Developing Market Economies, 1962<sup>a</sup>

SITC code	Item	Value of imports from developing countries (millions of dollars)	Percentage distribution of imports from developing countries	Imports from developing countries as percentage of total imports
841	Clothing, except fur clothing.....	233	14.2	18
653	Textile fabrics other than cotton <sup>b</sup> .....	190	11.6	14
652	Cotton fabrics .....	123	7.5	17
667	Pearls and precious and semi-precious stones.....	107	6.5	20
657	Floor coverings, tapestries, etc.....	93	5.7	29
631	Veneers, plywood boards, etc.....	68	4.1	18
656	Miscellaneous textile products.....	66	4.0	27
611	Leather .....	63	3.8	21
513	Inorganic chemicals .....	58	3.5	15
899	Miscellaneous manufactured goods.....	51	3.1	15
651	Textile yarn and thread.....	48	2.9	5
551	Essential oils, perfume and flavour materials.....	46	2.8	31
735	Ships and boats.....	37	2.3	5
681	Silver, platinum, etc.....	36	2.2	14
711	Power machinery, non-electric.....	33	2.0	3
521	Mineral tar and crude chemicals from coal, petroleum and natural gas.....	29	1.8	29
512	Organic chemicals .....	28	1.7	3
599	Miscellaneous chemicals .....	28	1.7	4
655	Special textile products.....	27	1.7	10
894	Perambulators, toys, sporting goods, etc.....	25	1.5	8
851	Footwear .....	24	1.4	6
<sup>c</sup>	Other manufactures .....	231	14.1	1
	TOTAL	1,643	100	4

Source: See table 7-3.

<sup>a</sup> Data based on three-digit SITC code. See also foot-note a to table 7-3.

<sup>b</sup> Of this item, jute fabrics amounted to \$173

million. They constituted 87 per cent of the total imports of jute fabrics into the developed market economies.

<sup>c</sup> All other components of SITC sections 5, 6, 7 and 8 except 67 and 682-689.



veloped countries. Between 1955 and 1961, the rate of increase in imports of textiles by the developed countries from the developing countries was none the less quite rapid; it substantially exceeded the rate of increase in imports from all sources, indicating a gain in the competitive strength of the developing countries. The response evoked by this growth in terms of more restrictive commercial policies in developed countries is well known and is described in some detail in a later section. It should also be added that the present composition of exports of the developing countries similarly goes far towards explaining the relatively sluggish growth of trade in manufactures among these countries; for, it is with the domestic production of non-durable consumer goods that most of these countries have initiated their industrial development programmes.<sup>10</sup>

The discussion thus far has not included trade in processed food-stuffs. It can be questioned whether processed food-stuffs should be classified as manufactured goods. The value added in processing these edible products is often very small, and therefore even after processing they remain usually akin to primary commodities. This is particularly true of the processed food-stuffs exported by the developing countries which are generally in a cruder state than those exported by the developed countries. However, since these products are of some importance in the export trade of a number of developing countries, such as is the case for tinned meat from Argentina, the data for the principal processed food-stuffs exported by the developing countries to the developed market economies are shown below. Between 1955 and 1961, the exports of processed food-stuffs increased by only 30 per cent, or at about half the rate of expansion of manufactured goods covered in table 7-5. If, for instance, processed food-stuffs are included in total exports of manufactured goods, their share appears to be rather less than one-fourth in 1961.<sup>11</sup>

Whether or not processed foods were included in manufactures, however, the main conclusions that emerge from this description of the export trade of developing countries would remain unaltered. While total exports of manufactures from the developing to the developed countries expanded quite rapidly between 1955 and 1961, the rate of growth was somewhat below that of trade among the developed countries. The principal dynamic element consisted in exports of textiles, and the bulk

PROCESSED FOOD-STUFFS EXPORTED BY DEVELOPING COUNTRIES  
TO DEVELOPED MARKET ECONOMIES<sup>a</sup>

(Millions of dollars)

SITC code	Item	1955	1961
013	Meat, canned or prepared.....	113	123
032	Fish, canned or prepared.....	32	38
048	Cereal preparations .....	5	3
053	Fruit, preserved or prepared.....	52	93
055	Vegetables, preserved or prepared	30	54
062	Sugar preparations, non-chocolate	1	1
073	Chocolate and products.....	12	8
099	Miscellaneous food preparations..	1	2
122	Tobacco manufactures .....	8	8
TOTAL		253	329

Source: See table 7-3.

<sup>a</sup> Data are derived from trade returns of developed market economies and therefore relate to imports valued on a c.i.f. basis.

of the expansion, moreover, was concentrated in the markets of a few of the developed countries. It is because of these features that trends in exports of manufactures since 1961 have been much less buoyant than in the preceding years. The particular countries, principally the United Kingdom and the United States, into which the main part of the increase in exports of textiles had been directed, responded to the greater inflow by negotiating arrangements for the limitation of exports, and their rate of growth has accordingly declined. In the United States, for example, agreements to limit exports were reached with a number of countries in the course of 1962 and 1963 and, while exports increased appreciably in 1962, they showed hardly any gain at all in 1963.<sup>12</sup>

For the developing countries, one lesson to be learned from post-war experience is the importance of diversifying exports to include products for which world import demand is growing rapidly. There are some hopeful signs that such diversification of exports is mounting. While still very small in absolute terms, receipts of developing countries from sales of machinery and transport equipment have been increasing quite sharply. New markets have been acquired in the developed countries, not so much in consumer durable and non-durable goods as in the less complex types of producer goods and machine parts, such as electric generators, diesel engines, locomotives and steel frames for furniture. It may be noted that these products embody a relatively high labour component, giving the developing countries a cost advantage in these lines. In addition, less elaborate marketing facilities are required than in the case of many types of consumer goods, especially consumer durables.

It is obvious, however, that the diversification of exports cannot be quickly achieved and that

<sup>10</sup> For a more detailed discussion, see "Industrialization and economic development" in United Nations, *World Economic Survey, 1961* (Sales No.: 62.II.C.1).

<sup>11</sup> Processed foods are valued on a c.i.f. basis while other manufactures are valued on an f.o.b. basis. This difference does not, however, significantly affect the broad magnitudes indicated in the text.

<sup>12</sup> United States Department of Agriculture, *Cotton Situation* (Washington, D.C.), November 1963, page 10.

exports of textiles and other light manufactures will continue to predominate for some time. There is also no doubt that these light industries can continue to contribute heavily to the growth of total export earnings, playing the same role of a leading export industry that they did in certain of the countries which are now developed. But for any early and substantial expansion of exports to take place, it is clearly a condition that the obstacles to imports in the developed countries should be reduced or removed.

In this context, it can hardly be stressed too strongly that the share of the developing countries in the total imports of manufactures of the developed countries is at present very small. Even the principal exports of textiles from the developing countries still account for no more than one-fifth or one-fourth of the total imports of such products into the developed countries. Taking manufactures as a whole, the developing countries supplied only 4 per cent of the total imports of the developed market economies (*see* table 7-8). Only in the United Kingdom and the United States, largely because of the important part played by textiles, did the share of the developing countries in the total amount to over one-tenth. On the other hand, more than half of the developed market economies obtained less than 2 per cent of their imports of manufactures from the developing countries. Even modest increases in the small percentage share of the developing countries in this trade would add significant sums to their foreign exchange receipts, and

Table 7-8. Developed Market Economies: Share of Developing Market Economies in Total Imports of Manufactures, 1962<sup>a</sup>

Country	Percentage
United Kingdom .....	12.3
United States .....	11.3
Norway .....	4.6
Australia .....	3.9
Japan .....	3.8
Germany (Federal Republic) .....	3.8
France .....	3.2
Switzerland .....	1.9
Belgium-Luxembourg .....	1.5
Denmark .....	1.5
Canada .....	1.5
Sweden .....	1.4
Italy .....	1.2
Netherlands .....	1.1
Portugal .....	1.0
Austria .....	0.8
TOTAL, developed market economies	4.4

Source: See table 7-3.

<sup>a</sup> See foot-note a to table 7-3.

would thus make an important contribution to speeding their economic advance. It is in the light of these circumstances that the existing obstacles to trade, and the measures for their removal, should be reviewed.

## Obstacles to trade<sup>13</sup>

The sale of manufactures produced by developing countries in the markets of the developed countries is hampered by a number of obstacles erected by commercial policies. These obstacles can be classified into the two groups of tariff and non-tariff barriers. The broad economic difference between these two groups is that tariff barriers restrict entry into the market through their influence on prices whereas non-tariff barriers generally exert their protective effect through limitations on the freedom of choice of purchasers between domestic and imported products. This distinction is not entirely watertight since a few non-tariff barriers do work partly through the price mechanism, but it does hold for the more important obstacles to trade.

<sup>13</sup> See also United Nations, "Survey of Progress in the Reduction and Elimination of Barriers affecting Products Exported by Less Developed Countries" (mimeographed document E/CONF.46/37) and chapter 5 of the present report.

### TARIFF BARRIERS

Tariffs have a long tradition as an instrument of protection for domestic industry. It is true that they have also invariably served as an element of fiscal policy. At the present time, import duties constitute a major source of government revenue in the developing countries; and it is only in the last few decades that they have ceased to be used extensively in developed countries for the same purpose. In the present context, however, it is the protective aspect of tariffs which is of interest.

Among most of the developed countries, two principal tariff scales are currently in force. The member countries of both EEC and EFTA apply tariffs at a preferential rate to imports from other member countries and tariffs at the general or most favoured nation rate to imports from the rest of the world. For certain of these countries, the situation is also complicated by their participation in preferential

tariff areas that extend outside of Europe. For the moment, however, attention may be limited to the general tariffs applied by the developed countries.

If a simple, unweighted average of tariffs on imports of manufactures is calculated, it is found that the average level of general tariffs of the major developed countries amounts to about 15 per cent *ad valorem*.<sup>14</sup> (See table 7-9.) However, the level varies appreciably among the different countries.

<sup>14</sup> It has to be recognized that there is no way of measuring the tariff levels of different countries which is both simple and entirely satisfactory. Tariff schedules invariably list many thousands of tariffs, and some crude method of summarization has to be devised. The procedure adopted in the present chapter has been to take simple averages of the itemized tariffs (see foot-note a to table 7-9). This is open to the objection that it gives equal weight to each tariff item and thus takes no account of the relative importance in foreign trade of the different products to which the tariffs apply. An alternative procedure would be to give a different weight to each tariff in proportion to the relative importance of the product in total imports of a country. This might appear to be a way of circumventing the objection raised to the first procedure. But, in fact, it is equally unsatisfactory; for, in this measure, the more effective a tariff is in restricting imports, the lower would be its weight.

As a broad rule, the simple arithmetic mean yields a higher average rate than does the weighted arithmetic mean. This spread between the two types of calculations is particularly large for the United States where there are some very high and low tariff items. Because imports are low for the high tariff items in the United States, the weighted arithmetic mean yields a relatively lower figure than does the simple arithmetic mean. By contrast, in a

The highest rates are recorded by the United States and the United Kingdom, where the average tariff levels are around 20 per cent *ad valorem*. These two countries are followed closely by Japan. At the other end of the scale are the Federal Republic of Germany and the countries that are members of the Benelux Union, with average tariffs only about half as high as those of the United States and the United Kingdom.<sup>15</sup>

It is a familiar feature of the tariff systems of developed countries that tariffs on manufactures and semi-manufactures tend to be appreciably higher than tariffs on the raw materials used in their production. In fact, on raw materials not produced in the importing country, tariffs have frequently been zero. This combination of policies to provide supplies of cheap, imported materials and to protect domestic industries processing these materials has long been characteristic of developed countries. Indeed, its origins can be traced back to earlier periods of

number of other countries where various tariff items are close to the average and extreme values are relatively few, the two methods of computing the average rate of tariffs do not yield much difference in results.

<sup>15</sup> In these inter-country comparisons, it should be borne in mind that the calculations for the United States are based on f.o.b. import values while those for other developed countries are derived from c.i.f. values. Average tariffs in the United States are, consequently, overstated to the extent that the c.i.f. values are higher than the corresponding f.o.b. values.

Table 7-9. Selected Developed Countries: Average *Ad Valorem* Tariffs on Imports of Manufactures, 1963<sup>a</sup>

Country	Percentage rate				
	All manufactures	Chemicals	Manufactured goods classified by material	Machinery and transport equipment	Miscellaneous manufactures
United States .....	20	17	21	12	24
United Kingdom .....	20	16	19	19	23
Japan .....	18	11	17	17	27
Italy .....	15	12	15	16	17
Canada .....	15	8	16	12	21
France .....	14	11	14	14	18
Benelux .....	11	5	12	9	15
Germany (Federal Republic) .....	10	7	10	8	12
TOTAL	15	11	16	13	20

Source: Bureau of General Economic Research and Policies of the United Nations Secretariat, based on data from official sources.

<sup>a</sup> Tariffs in this table refer to import duties at the general rate. Where duties are specific, they have been converted into their *ad valorem* equivalents. For this table, manufactures have been defined to comprise the thirty-seven groups of the Standard International Trade Classification listed in appendix table 7A-1. In computing the data shown above, the initial step was to take simple averages of all the rates within each SITC group, groups 893-896

and 899 being combined for this purpose. Then, for all manufactures, a simple average of the rates so derived for each group was taken. For the broader SITC categories shown in the table, the rates were similarly calculated by taking simple averages of the rates for the SITC groups appropriate to each category. For calculating averages for the group of countries listed in the table, Benelux is treated as comprising two units—namely, Belgium-Luxembourg and the Netherlands. Data for Japan, the United Kingdom and the United States refer to 1962.

industrial development in these countries; and it is not surprising that a similar pattern is emerging in the tariff structures of the countries which are now developing.

The persistence of this pattern of tariffs in the developed countries, however, obviously adds to the difficulties confronting the developing countries in expanding their exports of manufactures. Manufacturing costs in these countries tend to be high relatively to costs of primary production; and an important task in these countries is to bring down costs of manufacturing production relatively to costs of primary production in order to render their manufactures internationally competitive at prevailing exchange rates. The existence of higher tariffs on manufactures than on primary products in importing countries only compounds this difficulty.

In addition to the higher tariffs on manufactures than on imported raw materials, there is also some evidence to suggest that—at least in certain classes of products—the tariff tends to be higher on the finished than on the semi-manufactured product. The barrier to exports, in other words, may tend to increase as industrial development advances from the simple processing of materials to the production of final manufactures. Such escalation is quite clearly evident in the case of cotton textiles; in the EEC countries, for example, the import duty on raw cotton is nil but on yarn it is 8 per cent and on cotton woven fabrics it amounts to 17 per cent. In other products, a similar tendency can sometimes be detected in the tariff schedules of particular countries (*see* table 7-10). However, while such escalation is important when the comparison is between raw materials and manufactures or semi-manufactures, it need not be of much significance when the same product at different stages of manufacturing is being considered; for, a low tariff applied to a product at an early stage of processing may sometimes have a greater protective effect than a higher tariff at a later stage.<sup>16</sup>

<sup>16</sup> This is because the value added in processing of certain articles is quite small in comparison with the value added in manufacturing finished goods out of the same imported materials. For such comparisons, a more relevant measure can be obtained by relating the *ad valorem* rates to the value added in processing. In the United States, for example, the *ad valorem* import duty on steel in primary forms is slightly lower than that on finished articles of steel (*see* table 7-10); but, as the following data show, when this duty is expressed as a percentage of value added, its protective effect appears to be much higher:

Item	Tariff as percentage of value added in processing
Iron ore, scraps and waste .....	—
Steel in primary forms .....	44
Finished articles of iron and steel .....	28
Pipe and fittings cast, whether grey iron or malleable iron .....	17

Table 7-10. Selected Developed Countries: *Ad Valorem* Tariffs on Selected Imports, by Item and Stage of Processing, 1963<sup>a</sup>

Item <sup>b</sup>	European Economic Community	United Kingdom	United States
<b>Cotton</b>			
Raw .....	—	—	—
Yarn .....	8	8	14
Woven fabrics .....	17	18	20
<b>Jute</b>			
Raw .....	—	—	—
Yarn .....	10	13	20
Woven fabrics .....	23	20	6
<b>Leather and leather goods</b>			
Hides and skins, raw .....	—	—	—
Finished leather .....	7	13	10
Leather footwear .....	16	15	13
<b>Wood</b>			
Wood in the rough and roughly square <sup>c</sup> .....	—	—	—
Wood sawn lengthwise <sup>c</sup> .....	—	—	4
Veneer sheets .....	10	10	10
Plywood, hardboard, etc. ....	15	20	25
<b>Iron and steel</b>			
Iron ore .....	—	—	—
Ingots and other primary forms of iron and steel ...	7	11	9
Finished articles of iron and steel .....	9	14	10
Pipes and fittings of iron or steel .....	14	18	10
<b>Coir</b>			
Raw .....	—	—	—
Yarn .....	—	10	—
Woven fabrics .....	20	20	12

Source: General Agreement on Tariffs and Trade, "Survey of Progress in the Reduction and Elimination of Barriers Affecting Products Examined by Committee IIP" (Committee III/119, 21 October 1963); Political and Economic Planning, *Atlantic Tariffs and Trade* (London, 1962); and national sources.

<sup>a</sup> Where duties are specific, they have been converted with their *ad valorem* equivalents. Data refer to the common external tariff in the European Economic Community and to most favoured nation rates in the United Kingdom.

<sup>b</sup> The classes of manufactures have been ranked by their order of importance in exports from developing to developed countries.

<sup>c</sup> Tropical timber. In the European Economic Community and the United Kingdom, duties to be suspended from 1 January 1964 to 31 December 1965.

When attention is turned to a comparison of the tariffs on different classes of manufactures, the feature of greatest significance for the developing countries is that tariffs on products of particular interest to these countries tend to be relatively high. It is, in fact, quite striking that the types of manufactures which the newly industrializing nations are able to export at the present stage of their development—namely, the items covered under the

SITC sections "manufactured goods classified by material" and "miscellaneous manufactures"—encounter relatively high tariff barriers, the rate on these products being above the average on imports of all manufactures (*see* table 7-9).

This emerges still more sharply when the data are examined in greater detail. The tariffs imposed by the same developed countries as are listed in table 7-9 on thirty-seven groups of manufactures are shown in appendix table 7A-1. It is readily evident from these data that some of the highest tariffs levied by the developed countries relate to the products of light industry. Thus, such important items of export as textiles, floor coverings, tapestries, footwear, travel goods, handbags, plastic articles and sports goods generally attract tariffs of 20 per cent *ad valorem* or more. In some cases, the rates are as high as 35 or even 40 per cent.

There are also other elements in the tariff systems of developed countries which may tend to have a particularly protective effect in regard to imports from developing countries. One such is the practice of charging specific, rather than *ad valorem*, duties on certain classes of imports. Specific duties were introduced during the nineteen thirties by many developed countries with a view to discouraging cheap, low-quality imports. They tend to be an effective barrier to low-priced varieties of any particular class of product since the lower the unit value of the imported product, the higher is the *ad valorem* equivalent of a specific duty. Thus, in so far as developing countries rely on exports of lower quality and cheaper products, such specific duties tend to discriminate against them.

It is of course true that there has been a marked shift away from the use of specific duties in more recent years, and most developed countries now levy tariffs on an *ad valorem* basis. But, in the United

Kingdom and the United States, specific duties are still common. In a number of instances, such duties are used together with *ad valorem* duties, often as a minimum. As may be seen from table 7-11, more than one-fourth of the manufactures itemized in the tariff schedule of the United States are subject to specific duties. In the case of chemicals, these duties are almost as numerous as *ad valorem* tariffs. Manufactured goods classified by material, especially textiles—which are particularly important in the exports of the developing countries—also frequently encounter specific duties in both the United States and the United Kingdom.

Another way in which imports of low-priced products into the developed countries are discouraged is through the levy of tariffs on the basis of either assumed norms or domestic retail values rather than invoice unit values. Where tariffs are levied on the basis of assumed norms determined by the customs authorities for tariff purposes, *ad valorem* rates are, in effect, converted into specific rates and the true incidence of duties becomes higher. Likewise, when tariffs are levied on the basis of retail values in importing countries, the true rate is much higher than the reported *ad valorem* rate. Furthermore, the effective rates may actually be still higher because the retail prices are sometimes based on domestic products of much higher quality than the imported articles. In the United States, for example, the "American price" rates apply to a number of items, such as rubber boots and knitted gloves, which figure significantly in the exports of the developing countries.

It is worth noting in this connexion that, although low prices do not in themselves constitute dumping, the operation of anti-dumping laws may affect many cheap products suspected of being dumped. Of course, in recent years, dumping has not proved to

Table 7-11. United Kingdom and United States: Number of Manufactures Subject to *Ad Valorem* or Specific Duties, 1963<sup>a</sup>

SITC section	United Kingdom		United States	
	Ad valorem	Specific	Ad valorem	Specific
Chemicals .....	532	35	436	428
Manufactured goods classified by material .....	391	105	654	279
Machinery and transport equipment ..	281	3	618	44
Miscellaneous manufactured articles..	512	18	1,073	258
TOTAL	1,716	161	2,781	1,009

Source: United Kingdom, *H.M. Customs and Excise Tariff Amendment No. 45* (London, 1962), and United States Tariff Commission, *United States Import Duties—1963* (Washington, D.C.).

<sup>a</sup> Data refer to general tariffs only. Items subject to mixed *ad valorem* and specific duties are counted in the *ad valorem* as well as in the specific category.

be of great significance. In the United States, for example, less than one-tenth of the complaints lodged in recent years have proved to be actual violations of anti-dumping regulations. But the mere fact of complaint and investigation introduces an element of uncertainty and acts as a threat to the normal development of international trade.<sup>17</sup>

The foregoing discussion has dealt exclusively with the structure of general tariffs in the developed countries. However, account must also be taken of the existence of discriminatory tariffs. Wherever discriminatory tariffs are employed, exports from non-preferential countries have to overcome a competitive disadvantage in relation not only to domestic products in importing countries but also to exports from countries treated preferentially. This point has assumed considerable importance with the establishment of the EEC and the EFTA which have introduced preferential rates for intra-trade as well as for their trade with the associated overseas States and territories and the Commonwealth. As the implications of these regional groupings for the trade of the developing countries have been analysed in considerable detail in another document,<sup>18</sup> only a few summary remarks touching on the main conclusions need be presented here.

In the EEC, tariffs on intra-trade in industrial products had, by July 1963, been reduced by 60 per cent. The schedule of tariff reductions in EFTA on intra-trade has by and large kept pace with that in the EEC. This implies that tariffs currently applicable to intra-trade in the western European regional groupings are on the average about half those levied on imports of manufactures from the non-preferential countries.<sup>19</sup>

Since the exports of manufactures from the developing countries as a group to the EEC are relatively small, it may be argued that the EEC preferential arrangements are not likely to have much of a detrimental effect. However, this would be a very short-term point of view. Expansion of exports of manufactures to the EEC is of great potential interest to the developing countries. The very fact that the EEC has in the past imported a relatively small volume of manufactures from the developing countries suggests that such imports could be increased provided barriers to their entry were removed.

<sup>17</sup> For further comments on this point, see the discussion on non-tariff barriers below.

<sup>18</sup> See United Nations mimeographed document E/CONF.46/31, "Implications for trade and development of developing countries of economic groupings of developed countries and/or preferential trading arrangements", chapter III.

<sup>19</sup> Account has been taken of the fact that the initial 10 per cent reduction in tariffs on imports of industrial products was extended to all GATT members.

With regard to EFTA, the situation is somewhat different, since the United Kingdom already provides an important market for exports of manufactures from some of the developing countries which are members of the Commonwealth preferential system. In the future, these developing countries will have to compete in the United Kingdom market on equal terms with other EFTA countries. Other developing countries which are outside of this system are in the same disadvantageous position in relation to EFTA as they are in relation to EEC.

For the developing countries not accorded preferential treatment, the formation of regional groupings in western Europe clearly creates an additional element of discrimination.<sup>20</sup> It appears, moreover, that the degree of discrimination arising from regional groupings will increase as the current schedules for progressively greater economic integration are realized. These schedules call for complete elimination of internal tariffs within the EFTA as well as within the EEC by the end of 1966.

#### RECENT CHANGES IN TARIFFS

Concurrently with the emergence of these regional groupings, there has been a trend during the post-war years towards the liberalization of general tariffs. Since the end of the war, there have been five major rounds of negotiations under the General Agreement on Tariffs and Trade (GATT) for the reduction of general tariffs,<sup>21</sup> and the sixth round is scheduled to take place this year. In view of the formation of regional groupings, such measures of liberalization assume particular importance for the developing countries since they not only reduce the absolute height of tariffs but also help to limit the size of the preferential margins.

Despite the trend towards tariff reductions, there is some doubt as to how far the developing countries have benefited. Many of the developing countries are not members of the GATT. In addition, many products exported by the developing countries have not been affected by tariff reductions; either they are subject to regulation by means other than tariffs—as with textiles or agricultural commodities—or, as with many mineral raw materials, they are already exempt from import duties or attract duties only at very low rates. A further factor, as noted later, has been that the negotiation of reciprocal tariff reductions among the developed countries has

<sup>20</sup> For further details, see United Nations document E/CONF.46/31, op. cit.

<sup>21</sup> These five rounds of negotiations were: Geneva, 1947; Annecy, 1949; Torquay, 1951-1952; Geneva, 1956; Geneva, 1960-1961.

naturally tended to concentrate on items of special importance in trade among these countries.<sup>22</sup>

Thus, the post-war tariff reductions in the developed countries have not necessarily yielded much benefit to the developing countries. In the United States, for example, as may be seen from table 7-12, some of the manufactured goods for which imports from the developing countries bulk large, have been comparatively neglected in the tariff reductions of recent years.<sup>23</sup> This is particularly true of crude chemicals from coal, certain textile fabrics and plywood veneers. In contrast, among many of the commodities whose tariffs have been subject to significant reductions, the share of the developing countries in the imports of the United States is either nil or very small. In the EEC, apart from the discriminatory features discussed earlier, the general trend towards tariff reductions has been complicated by virtue of certain special factors. Most important among these is the fact that the common external tariff is somewhat higher than the effective rate prevailing at the beginning of 1958. Although the common external tariff originally specified in the Rome Treaty was an arithmetic average of the national tariff rates prevailing in January 1958 (treating Benelux as a single unit), the national rates actually employed for calculating the average for the common external tariff were somewhat higher than those actually in force. For example, the rates for the Federal Republic of Germany did not take into account the 25 per cent reduction of 1957, and those for Italy excluded the tariff cuts of 1951. Certain tariffs, notably those on a number of chemicals in Benelux, which entered into the calculation of the common external tariff, were suspended at the end of 1957. As far as the national tariff rates in the transitional period are concerned, the rates of the low-tariff countries, namely Benelux and the Federal Republic of Germany, have been raised while those of the high-tariff countries, namely France and Italy, have been lowered. These disparate movements will be continued as the alignment of national tariffs progresses further. All these considerations suggest that much work still remains to be done in the de-

<sup>22</sup> In the round of negotiations which took place in Geneva in 1960-1961, although it was indicated that the developed countries would be willing to take a flexible position with regard to the degree of reciprocity to be provided by the developing countries, most of the developing countries found that they were not in a position to offer concessions which would provide an adequate *quid pro quo*. In the forthcoming GATT negotiations, linear or across the board reductions are contemplated; the significance of such reductions is examined in a later section.

<sup>23</sup> Not all tariff changes are a result of deliberate policy. Where specific rates are important, as in the case of the United States, the effective rate (in terms of *ad valorem* equivalent) has been reduced in the post-war years owing to the general tendency of prices to rise.

Table 7-12. United States: Tariff Changes<sup>a</sup> on Imports of Selected Manufactures and Share of such Imports from Developing Countries  
(Percentage)

SITC group	Share of imports from developing countries, 1962	Tariff change, 1952-1962
Mineral tar and crude chemicals from coal, petroleum and natural gas..	61	—
Essential oils, perfume and flavour materials .....	51	—15
Special textile fabrics and related products .....	45	—8
Textile fabrics, woven, other than cotton fabrics .....	42	+5
Cotton fabrics, woven .....	32	—13
Veneers, plywood boards, etc. ....	32	—7
Clothing (except fur clothing) ....	31	—20
Pearls and precious and semi-precious stones .....	25	—16
Miscellaneous made-up textile articles	20	—17
Plastic materials, regenerated cellulose and miscellaneous chemical materials and products .....	19	—3
Leather .....	19	—6
Floor coverings, tapestries, etc. ....	19	—7
Miscellaneous manufactured articles, n.e.s. <sup>b</sup> .....	14	—22
Textile yarn and thread .....	12	—4
Furniture .....	11	—24
Inorganic chemicals and radioactive materials .....	10	—5
Travel goods, handbags and similar articles .....	9	—17
Organic chemicals .....	8	—14
Jewellery and goldsmiths' and silver-smiths' wares .....	7	—18
Footwear .....	5	—15
Fertilizers, manufactured .....	3	—
Cork manufactures .....	3	—15
Iron and steel .....	2	—5
Electrical machinery, apparatus and appliances .....	2	—5
Pottery .....	1	—10
Scientific, medical, optical, measuring and controlling instruments and apparatus .....	1	—13
Agricultural machinery and implements .....	—	—19
Textile and leather machinery, machines for special industries and miscellaneous machinery and appliances other than electric ....	—	—14
Fur skins, tanned or dressed (including dyed) .....	—	—7

(Table continued on following page)

Table 7-12 (continued)

SITC group	Share of imports from developing countries, 1962	Tariff change, 1952-1962
Materials of rubber.....	—	—13
Power generating machinery, other than electric .....	—	—12
Office machines .....	—	—12
Fur clothing (excluding headgear) and other articles made of fur skins, etc. ....	—	—7
TOTAL	15	—11

Source: Bureau of General Economic Research and Policies of the United Nations Secretariat, based on data from United Nations, *Commodity Trade Statistics, 1963*, Statistical Papers, series D, and from national sources.

<sup>a</sup> Changes have been calculated as the simple arithmetic means of the changes in all tariffs on the products within each of thirty-three groups.

<sup>b</sup> SITC groups 893-896 and 899.

veloped countries to lower tariff barriers on imports of manufactures from the developing countries.

A liberal commercial policy must also encompass the dismantling of non-tariff barriers in order to achieve an orderly expansion in world trade; and, it is to an examination of the non-tariff barriers on imports in the developed countries that attention is now turned.

#### NON-TARIFF BARRIERS<sup>24</sup>

In addition to the tariff barriers discussed above, certain quantitative restrictions on imports and other measures which in effect restrain imports are also applied by most developed countries. Non-tariff barriers in developed countries, in fact, often tend to be a more serious impediment to exports of manufactures from developing countries than do tariff barriers. While a moderate tariff wall can be scaled by an increase in efficiency, many of the non-tariff barriers cannot be surmounted at all, or can be overcome only with great difficulty, through the action of exporters. A further disadvantage for the developing countries is the fact that non-tariff barriers have in practice discriminated against them to a considerably greater extent than have tariffs.

Since the early nineteen fifties, extensive trade liberalization with regard to quantitative restrictions

<sup>24</sup> A non-tariff import barrier is here defined as any law, regulation, policy or practice of public authorities, other than import duties, which has a restrictive effect on imports. The definition here employed does not include impediments to trade arising from the operation of foreign cartels, private monopolistic or other non-governmental business practices. However, the exclusion of such impediments in the present context is not meant to imply that they are necessarily insignificant.

has taken place among developed countries. Early in 1959 over-all Organisation for European Economic Co-operation (OEEC) liberalization percentages were estimated at 90 per cent for intra-OEEC imports and 73 per cent for dollar area imports.<sup>25</sup> Following the introduction of convertibility for most western European currencies, a further liberalization of OEEC imports took place, particularly with regard to imports from the dollar area. By mid-1961, approximately 95 per cent of intra-OEEC imports and well over 90 per cent of dollar area imports had been liberalized.<sup>26</sup> The developing countries as a group, however, have not benefited significantly from this progress. Exporters of manufactured goods in developing countries, therefore, have reason to be especially concerned with the problem of non-tariff import barriers.

The analysis of non-tariff import restrictions encounters major difficulties. Sometimes systematic information is lacking even about formal import restraints. It is also virtually impossible to identify all conceivable non-tariff obstacles to trade. Some of the unidentified obstacles may, however, be as important as the barriers which are amply documented. Even when detailed information on various non-tariff import restrictions is available, it is difficult to assess their restrictiveness. Import control regulations, for example, may or may not have an effect on the flow of trade. What counts is how the controls are administered in practice; and, except in the case of strictly enforced quotas, information on the criteria used in the administration of restrictions is in general unobtainable. In the long run, moreover, the mere existence of protective measures makes sales prospects uncertain and may thus be a deterrent to the expansion of production for export in the developing countries. The discussion in the present section of the non-tariff import restrictions applied by a number of developed countries necessarily suffers from these limitations.<sup>27</sup>

In the following illustrative list, non-tariff import barriers are classified into four categories according to their original purpose. It will be noticed that not all these barriers have been specifically designed to insulate segments of the domestic economy from the full impact of foreign competition; some affect imports without being protective in intent. Those listed under foreign trade policies are by far the most important as protective measures and are dealt with at greater length than the numerous other restraints.

<sup>25</sup> Organisation for European Economic Co-operation, *Twelfth Annual Economic Review* (Paris, 1961), page 34.

<sup>26</sup> *Ibid.*

<sup>27</sup> The countries examined are Belgium-Luxembourg, France, the Federal Republic of Germany, Italy, Japan, the Netherlands, the United Kingdom and the United States.



- Foreign trade policies
  - Licensing requirements
  - Quota restrictions
  - Negotiated export limitations
  - Foreign exchange restrictions
  - State trading
  - Procurement policies favouring domestic products
  - Anti-dumping and similar regulations
  - Subsidies to exports
- Administrative practices
  - Classification of goods for customs purposes
  - Documentary, marking and packaging requirements
  - Incomplete or delayed publication of customs information
- Internal economic policies affecting imports
  - Internal taxes for revenue purposes
  - Taxes applied to imports to compensate for indirect taxes borne by comparable domestic goods
  - Pricing policies and price control regulations
  - Restrictions on advertising of goods
- Internal health and safety regulations affecting imports
  - Sanitary regulations
  - Technical specification requirements
  - Regulations applied for national security reasons.

#### GENERAL LICENSING AND QUOTA ARRANGEMENTS

Quantitative import restrictions, usually coupled with licensing requirements, are probably the most frequently used *non-tariff* barrier to imports. In the early post-war period, the use of licensing and quotas in the western European countries and Japan was motivated by balance of payments considerations. In recent years the balance of payments position of most of these countries has improved considerably, and this has led to a gradual liberalization of imports. Those Governments which have retained quantitative restrictions have usually done so for internal reasons. The imports still subject to quotas are, by and large, those which could be restrained effectively by tariffs, unless these were established at very high rates.

As an instrument of foreign trade policy, quotas have important advantages over tariffs. Quotas permit a desired change in imports to be achieved swiftly and with considerable certainty, whereas the quasi-institutional nature of tariff structures and trade treaties makes it difficult to introduce unilateral

changes on short notice. If necessary, quotas can also be applied selectively. Because of this flexibility, Governments have often retained licensing and quota arrangements even though they are not applied to restrict imports. For example, in France, the Federal Republic of Germany, Italy and Japan, licences are granted automatically for a number of items, and the stipulated quotas are in excess of any likely volume of imports.

The extent of existing licensing and quota restrictions in selected developed countries is outlined in table 7-13.<sup>28</sup> Owing to the incommensurability of various trade restraining measures and to differences in the classification of commodities for import control purposes, only very general observations can be made on the basis of the data presented. The Benelux countries, the United Kingdom and the United States seem to have few quantitative restrictions on imports from any source. The Federal Republic of Germany, Italy and Japan apply restrictions to a considerably wider range of imports, but even in these countries, the restricted items are few by comparison with the number that can be freely imported. From the viewpoint of developing countries there appear to be differences in the kinds of commodities that are restricted by the Federal Republic of Germany on the one hand and by Italy and Japan on the other. In the Federal Republic of Germany, the restricted articles are concentrated within those categories which generally are of the greatest importance in the exports of manufactures from developing countries. In the case of Italy and Japan, most articles under restraint are those that are typically exported from developed countries. An examination of individual items subject to restriction confirms the impression that licensing requirements and quotas in the Federal Republic of Germany are directed chiefly against consumer goods from "low-wage countries" (including Japan), whereas in Italy and Japan they are used mostly against producer goods from developed countries. On the basis of incomplete data, it also appears that France maintains a large number of restrictions on imports from developing countries outside the franc area.<sup>29</sup>

Among exports from developing countries, textiles and clothing are on the whole much more affected by quantitative restrictions than are other manufactures. Since the share of textiles and clothing in total exports of manufactures by these countries is large, restraints on trade in such products sig-

<sup>28</sup> It should be recalled that the discussion here relates only to manufactures and semi-manufactures as defined in this chapter; restrictions on other products not included here are treated in the items mentioned in foot-note 13.

<sup>29</sup> Published lists of French import restrictions refer only to imports from OECD countries, Canada and the United States.

Table 7-13. Selected Developed Countries: Number of Manufactured Articles Subject to Total or Partial Licensing or Quota Restrictions, June 1963<sup>a</sup>

Commodity group	Benelux	Germany (Federal Republic)	Italy	Japan <sup>b</sup>	United Kingdom	United States
Processed foods .....	—	17	6	22	5	2
Beverages and tobacco .....	—	—	2	8	2	—
Chemicals .....	5	1	5	33	3	—
Leather and rubber products...	—	1	—	5	—	—
Wood, cork and paper products	—	—	—	6	—	—
Textiles .....	<sup>c</sup>	24	5	9	3 <sup>d</sup>	1 <sup>d</sup>
Iron and steel .....	—	—	—	4	—	—
Metal manufactures .....	—	—	—	4	—	—
Machinery, other than electric	—	1	4	22	—	—
Electrical machinery .....	—	2	—	11	—	—
Transport equipment .....	—	—	11	8	1	—
Clothing and footwear .....	<sup>c</sup>	8	3	4	<sup>d</sup>	<sup>d</sup>
Other manufactures .....	—	10	3	18	2	—

Source: Bureau of General Economic Research and Policies of the United Nations Secretariat, based on data from various GATT documents and from official national sources.

<sup>a</sup> Number of articles refers to number of items distinguished in the sources used.

<sup>b</sup> Articles subject to import licensing under

the Foreign Exchange Fund Allocation System.

<sup>c</sup> Imports of several items from Japan are subject to quota restriction.

<sup>d</sup> Exports of a varying number of items are limited by exporting countries (see discussion of negotiated limitations of exports from developing countries).

nificantly limit their export earnings. In the case of other manufactures, the level of exports from developing countries is generally low despite a comparatively liberal import policy in developed countries. Of course, when imports are small in relation to domestic production there is less pressure to apply restraints.

All of the western European countries surveyed apply their quantitative restrictions in a manner which discriminates in favour of Organization for Economic Co-operation and Development (OECD) countries. Frequently, other countries receive the same preferential treatment, but these seldom include developing countries. Present or former dependent territories, however, as a rule enjoy relatively free access to the markets of the present or former metropolitan countries. In the Federal Republic of Germany and, it is believed, also in France, imports from countries favoured by the discriminatory practices are restricted in considerably fewer instances than imports from other countries. For example, of the sixty-four articles enumerated in table 7-13 as subject to restraint in the Federal Republic of Germany, only imports of the seventeen processed food items are restricted when these originate in such countries.

In continental western Europe and Japan, import licences are not always allocated only according to country of origin or consignment, but other considerations, such as the quality and the price of the goods, are also frequently taken into account. This practice introduces an element of administrative discretion into the control of imports which may

be used for protective purposes. The possibility of such use probably increases when the allocation of licences to individual importers is delegated to trade or professional associations, a practice which is not uncommon in France.

Table 7-14 summarizes non-tariff import restrictions on sixteen categories of products in developed countries. These are manufactures and semi-manufactures which have been examined by GATT Committee III as of importance in the export trade of individual developing countries. It can again be seen that textile products<sup>30</sup> are subject to some kind of import restriction in more countries than any of the other items listed. The other products are restricted in only a few of the countries under review. As stated earlier, the comparatively more liberal treatment of imports of other manufactures should be evaluated in the light of the fact that the value of their trade is generally small.

The recent tendency in general licensing and quota arrangements has been towards the withdrawal of restrictions. At the first examinations of the products listed in table 7-14 by the GATT Committee III in the course of the years 1959-1961, 154 of the 256 items were free from restrictions. In the period between the first GATT examinations and October 1963, imports of forty-five of the 102 originally restricted items were completely liberalized.<sup>31</sup> Thus,

<sup>30</sup> Divisions 65 and 84 of SITC.

<sup>31</sup> General Agreement on Tariffs and Trade, "Survey of Progress in the Reduction and Elimination of Barriers Affecting Products Examined by Committee III" (document COM.III/119), 21 October 1963.

Table 7-14. Selected Developed Countries: Non-tariff Import Restrictions on Manufactures and Semi-Manufactures of Importance in the Export Trade of Developing Countries, October 1963<sup>a</sup>

Country	Canned fish	Tobacco manufactures	Leather	Leather goods	Cotton textiles	Jute manufactures	Coir manufactures	Cement	Internal combustion engines <sup>b</sup>	Sewing machines	Electric motors	Electric fans	Bicycles	Steel furniture	Leather footwear	Sporting goods
Australia .....	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—
Austria .....	—	S	—	—	Q*	Q	Q*	—	—	—	Q*	—	Q*	—	Q	—
Benelux .....	—	—	—	—	e	—	—	—	—	—	—	—	—	—	—	—
Canada .....	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—
Denmark .....	—	—	—	—	e	R*	—	—	—	—	—	—	—	—	—	—
Finland <sup>d</sup> .....	Q*	—	Q*	Q*	Q*	Q*	R*	Q	Q	—	Q*	—	Q	—	Q	—
France .....	q*	S	—	q*	q*	Q*	q*	—	—	—	—	—	—	—	—	q*
Germany (Federal Republic) .....	—	—	q*	—	q*	q*	q*	—	—	r*	—	—	—	—	—	—
Italy .....	—	S	—	—	e	—	—	—	—	—	—	—	—	—	—	—
Japan .....	R*	S	R*	—	—	—	—	—	R*	—	—	—	—	—	R	—
New Zealand .....	Q	R	Q	R	Q*	Q*	Q*	Q	Q	L	Q	R	Q	Q	R	Q
Norway .....	—	—	—	—	e	—	—	—	—	—	—	—	—	—	—	—
Sweden .....	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—
Switzerland .....	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—
United Kingdom .....	—	q*	—	—	q	S*e	f	—	—	—	—	—	—	—	—	—
United States .....	—	—	—	—	q <sup>g</sup>	—	—	—	—	—	—	—	—	—	—	—

Source: General Agreement on Tariffs and Trade, "Quantitative Restrictions Affecting Exports of Less Developed Countries" (documents COM.III/72, 12 April 1962, revised by GATT as of 1 July 1963, and COM.III/116, 17 October 1963); and official national sources.

Note: The symbols indicate the nature of the quantitative restriction used:

Q = global quota;

q = bilateral quota;

L = licensing requirement;

R = import restriction, unspecified, applied to imports from all sources;

r = import restriction, unspecified, applied to imports from some sources only;

S = state trading or trading by an authorized monopoly;

\* = restriction is applicable only to part of item in question.

<sup>a</sup> The table refers to trade between GATT Contracting Parties and associated countries. The products surveyed are among those examined by GATT Committee III.

<sup>b</sup> Engines under 50 h.p. only.

<sup>c</sup> Quota restrictions applied to imports from Japan.

<sup>d</sup> Import permit required for most imports from countries not on the "multilateral treatment list". The list includes all GATT countries except Cuba, Czechoslovakia, Greece, Israel, Poland, Turkey and the United Arab Republic.

<sup>e</sup> For a description of United Kingdom import restraints, see the section "Other foreign trade policies" in this chapter.

<sup>f</sup> Various items restricted from Czechoslovakia, Poland and Japan.

<sup>g</sup> Restraints applied in accordance with the provisions of the long-term cotton textiles arrangement.

by late 1963, of the 256 items, no restrictions were applied in 199 instances. However, when account is taken of the value of trade in the different commodities, the record of liberalization becomes considerably less favourable. Cotton textiles and jute manufactures, whose trade is much larger than the combined value of trade in all other products listed in table 7-14, have been extensively restricted throughout the period of the GATT review. Furthermore, in the case of cotton textiles, resort to measures to avoid situations of "market disruption" has even brought about a reversal in the trend towards freer imports.

It would appear from discussions held within the framework of GATT that Governments of most developed countries foresee fewer barriers to imports of manufactured goods from developing countries in the future. However, unless this were to include substantial reductions in restrictions on cotton textile imports, the effect on flows of trade in the immediate future might not be very significant.

#### NEGOTIATED LIMITATIONS OF EXPORTS FROM DEVELOPING COUNTRIES

Governments are frequently reluctant to impose quantitative import restrictions unilaterally. Such measures may be in contradiction to pursuit of a liberal trade policy or may damage established political or economic interests in countries which would be affected by the restraints. In this situation, Governments have at times sought and achieved limitations on exports of certain products from a trade partner. The exporting countries' motive for acquiescing in such export limitations has presumably been the prospect of less favourable terms in case of refusal. Negotiations to determine the export limits have often been conducted on one or both sides directly by representatives of the affected industries.

During the past decade Japan has undertaken to limit exports of a substantial number of so-called "sensitive" items to the United States and several western European countries. Some developing countries have also agreed to control their exports of cotton textiles, first bilaterally and more recently under the auspices of the short-term and long-term cotton textiles arrangements.

During the post-war years, some developing countries, particularly India and Pakistan as well as Hong Kong, began to export cotton textiles to developed countries in increasing quantities. While tariff barriers and quota restrictions were obstacles to their entry into the major markets on the European continent, historical ties with the United Kingdom facilitated exports to that country. The United States

policy of refraining from quantitative import restrictions also helped to accelerate shipments from new suppliers.

In order to slow down the growth of imports, the United Kingdom entered into bilateral agreements to limit cotton textiles exports with Hong Kong in 1958 and with India and Pakistan in 1959. These agreements have since been renewed and are still in force. Imports from China (Taiwan) and centrally planned economies (excluding Yugoslavia) are under licensing control. Imports of cotton yarn from Pakistan were also subjected to quota restrictions after negotiations to establish a voluntary export limit failed.<sup>32</sup> Recently, the United Kingdom has been willing to accept a somewhat higher level of imports from Asian Commonwealth suppliers, while the policy towards imports from new sources has, on the whole, become more restrictive. The current ceilings for manufactures of woven cotton textiles from India, Pakistan and Hong Kong, effective from the beginning of 1962, are about 12 per cent higher than the ceilings which were in effect in 1960 and 1961. On the other hand, shipments of yarn from these three countries and of miscellaneous articles from Malaya, Portugal and Yugoslavia were limited for the first time in December 1962 and in the course of 1963 with some retroactive effect. Furthermore, effective 1 January 1963, the quota for imports of woven cotton manufactures from China (Taiwan) was reduced by 80 per cent.

A sudden upsurge in imports in the late nineteen fifties prompted the United States Government to initiate consultations under GATT, which resulted in the international cotton textiles arrangements of 1961 and 1962. A short-term arrangement was drawn up in July 1961 and remained in force for one year beginning 1 October 1961. The short-term arrangement was converted into a five-year long-term arrangement, which became effective on 1 October 1962 and has been acceded to by Governments of twenty-three developed and developing countries.

Under the long-term arrangement, as well as under the short-term plan, participating countries are permitted to request exporting countries to restrain exports in order to prevent disruption or threatened disruption<sup>33</sup> of their domestic cotton textile industries

<sup>32</sup> United Kingdom Board of Trade, *Board of Trade Journal* (London), various issues.

<sup>33</sup> The term "market disruption" was used by the United States delegation at the fifth session of GATT in Tokyo in 1959. The term was later defined by GATT to be applicable under the following conditions: (a) a sharp and substantial increase (or potential increase) of imports of particular products from particular sources; (b) the price of these products to be substantially below the price prevailing for similar goods of comparable quality in the market of the importing country; (c) serious damage, or threat of damage, to domestic producers; (d) the difference in price not to be

by unrestricted imports. At the same time, the long-term arrangement stipulated that countries maintaining import restrictions inconsistent with the GATT should progressively relax these restrictions in order to eliminate them as soon as possible. Moreover, the long-term arrangement in theory provides for an automatic increase of imports into countries which are applying measures to deal with a situation of "market disruption". However, in practice, this proviso is of little consequence, since, where bilateral arrangements exist, the annual increases may be determined within the framework of bilateral negotiations.

Subsequently, a number of countries applying restrictions to imports of cotton textiles announced increases in quotas over the five-year life of the arrangement. Canada and the United Kingdom, however, in accordance with an escape clause in the arrangement for countries already importing a large quantity of cotton textiles from developing countries, exempted themselves from any obligation to admit increasing imports.<sup>34</sup> The United States, claiming a condition of market disruption, negotiated restraints on exports of cotton textiles with several countries in the course of 1962-1963. By mid-1963 agreements had been reached or negotiations were under way with twenty countries or territories.<sup>35</sup> It has been estimated that more than 90 per cent of cotton textile imports from sources other than Japan were under control in mid-1963.<sup>36</sup>

The cotton textiles arrangements have introduced a new concept into world trade that has been applied to discriminate against imports from developing countries. The definition of the term "market disruption", which is of central importance in the arrangements, is applicable mainly to foreign sales of new and expanding textile industries, which in fact means that it is directed mainly against Japan and developing countries.<sup>37</sup> The determination of when market disruption exists can be made unilaterally by the importing countries without international review. According to previous international practice in parallel cases, importing countries

threatened by market disruption would have applied for a waiver from GATT authorizing them to use import restrictions for a limited period, at the end of which the restrictions would have had to be removed. Under the terms of the long-term cotton textiles arrangement, there appears little reason to expect that all restraints will have been removed when the arrangement expires in 1967.

It is too early to assess conclusively the effects of the short-term and long-term cotton textiles arrangements. The value of yarns and fabrics<sup>38</sup> entering international trade rose by almost 5 per cent in 1962 and the value of clothing<sup>39</sup> by about 12 per cent. The higher level of trade was mainly due to an expansion in textiles based on man-made fibres and in ready-made garments. Cotton textiles showed little growth.

Up to the latter half of 1963 the restraints under the provisions of the short-term and long-term cotton textiles arrangements had been mainly applied by the United States. Despite a possible hampering of imports of certain products, and difficulties for some exporters, the long-term arrangement did not prevent 1962 from being a year of considerable gains in shipments to the United States for the majority of the exporting countries.<sup>40</sup> However, agreements to limit exports were signed with several countries in the course of 1962 and 1963 and United States imports in 1963 showed hardly any increase at all.

#### OTHER FOREIGN TRADE POLICIES

State trading or trading by a public monopoly is unusual in the countries covered in this study. Of the products listed in table 7-14 only tobacco manufactures in Austria, France, Italy and Japan and jute manufactures in the United Kingdom are state traded. In the Federal Republic of Germany, state trading enterprises have the sole right to deal in processed meats and certain spirits. While the operation of such monopolies may have a restrictive effect in some cases, state monopoly operation should not be equated with quantitative restrictions.

In the United Kingdom, the jute industry is protected by a unique arrangement under which the Board of Trade Jute Control is the sole importer of jute goods from India and Pakistan. The greater part of these imports is resold at prices above the import prices; the amount of the markup is equivalent to a protective customs duty. The Jute Control imports only certain specifications of jute goods and the import of other specifications from

due to governmental intervention in fixing of prices or to dumping practices. Cf. General Agreement on Tariffs and Trade, *The Activities of GATT, 1960/61* (Geneva, 1961), pages 25 and 26.

<sup>34</sup> General Agreement on Tariffs and Trade, "Long-Term Arrangement Regarding Trade in Cotton Textiles, Annex A and Protocols" (document L/1813/Add.1, 2 November 1962).

<sup>35</sup> China (Taiwan), Colombia, Greece, Hong Kong, India, Israel, Jamaica, Japan, Mexico, Pakistan, Philippines, Poland, Portugal, Republic of Korea, Ryukyu Islands, Spain, Trinidad and Tobago, Turkey, United Arab Republic and Yugoslavia.

<sup>36</sup> *Far Eastern Economic Review* (Hong Kong), 18 July 1963, page 161.

<sup>37</sup> See foot-note 33.

<sup>38</sup> Division 65 of SITC.

<sup>39</sup> Division 84 of SITC.

<sup>40</sup> General Agreement on Tariffs and Trade, *International Trade 1962* (Geneva, 1963) page 74.

India and Pakistan is prohibited. Imports of jute goods from other countries are subject to licensing control and for the most part are restricted to those types of goods which the Jute Control does not import from India and Pakistan. In the case of these regulations the trend in recent years has been towards reduced protection.<sup>41</sup>

Many Governments follow public procurement policies favouring domestic products even if comparable foreign goods can be obtained at lower prices. Frequently this is done informally, and for that reason there exists little information on this kind of protection for most countries. The rule for United States government procurement of civilian goods is to buy foreign commodities only when the price of the same domestic goods is more than 6 per cent higher, with the exception that if the domestic product comes from an area designated as depressed, the differential may be as high as 12 per cent. In United States defence procurement, the allowed price spread is greater and may be as much as 50 per cent. On the other hand, overseas procurement in connexion with United States foreign aid administered by the Agency for International Development, while discriminating against other developed countries, is open to developing countries. Since 1959, procurement restrictions have been instituted on all new aid commitments for balance of payments reasons, but while nineteen industrial countries have been excluded from bidding, procurement in developing countries is allowed for programmes which in the fiscal year 1961/62 covered three-fourths of all commodity expenditure.<sup>42</sup>

Most developed countries apply anti-dumping duties to imports in cases which can be characterized as dumping according to national legislation. Some countries also apply compensatory duties to imports which directly or indirectly benefit from export subsidies or premiums. Little is known about the actual implementation of these measures. It is likely that they are unimportant for most developing countries. The legal procedures involved in anti-dumping charges are in themselves more of a deterrent to trade than the actual barring of imports in the few cases where the charges have been substantiated. In the United States, such procedural impediments have been described as a significant restriction on imports, going far beyond the intention of the Anti-dumping Act.<sup>43</sup>

<sup>41</sup> United Kingdom Board of Trade, *Board of Trade Journal*, 16 August 1963.

<sup>42</sup> United States Agency for International Development, *Operations Report, 1962* (Washington, D.C.).

<sup>43</sup> United States Congress, Senate Committee on Commerce, *The United States and World Trade, Challenges and Opportunities*, 87th Congress, 1st Session, Senate Report, 447 (Washington, D.C., 1961).

Regulations against "abnormally priced" imports, which in several respects are similar to anti-dumping practices, are frequently directed against developing countries. These regulations can be implemented even if the price of the imported article is no lower than the price charged by the exporter in his home market, a condition which excludes the use of the term dumping.

In some countries customs officials are authorized to raise the invoice value of a consignment if, in their judgment, it is too low. For example, in Canada, textiles are valued at the highest price at which they have been sold in the six months prior to final customs clearance, which effectively excludes low-priced mill ends. Imports of several textile products into Belgium-Luxembourg are subject to control to avoid the entrance of "abnormally priced" textiles from Spanish sources. In the United States, duties on a few products, such as certain chemicals, knitted gloves and rubber footwear, are determined not on the basis of the actual import price, but according to a higher "American selling price". Furthermore, it has been claimed by western European suppliers that the prices used do not reflect average retail prices in the United States market, but rather unrealistically high prices listed by manufacturers.

In 1956, cotton textile producers in the EEC member states, Austria and Switzerland formed the so-called Club of Noordwijk, which is concerned with imports for re-export of "abnormally low-priced" cotton textiles from Asian countries. In order to prevent disruption of markets in western Europe and in African countries subsequently associated with EEC, the members of the Club agreed to seek legislation against re-exportation to other participating countries of finished goods processed from grey fabrics imported from Asian sources. The Noordwijk agreement could thus constitute an effective impediment to trade of potentially quite significant proportions.

#### ADMINISTRATIVE PRACTICES

Administrative implementation of existing laws and regulations concerning imports may at times make these more restrictive than the written directives require. The classification of goods for customs purposes and the enforcement of documentary, marking, labelling, packaging and other requirements give much room for administrative interpretation. Customs officials frequently receive little guidance in the application of a regulation and are left to exercise their own judgment. For instance, in Belgium, the retail price of any product imported ready for sale may not exceed the retail price in the country of origin by more than 23 per cent; if imported duty-free, the maximum markup permitted

is 14 per cent. Unless prices are fixed by the authorities or the producers, application of such a regulation necessarily involves an element of judgment.

Incomplete or delayed publication of customs information is a substantial obstacle to imports in some countries with a complicated customs system. Difficulties in identifying accurately all the regulations concerning the importation of an item are likely to be experienced particularly by exporters in developing countries, since they are less experienced traders and have fewer established market contacts.<sup>44</sup>

#### INTERNAL POLICIES AND REGULATIONS AFFECTING IMPORTS

Internal taxes in developed countries are a less significant impediment to imports of manufactures than is the case with such primary commodities as tea, cocoa and tobacco. Since tax rates on manufactures are generally much lower than the charges on primary products, they can also be reduced or removed without substantially affecting government revenue in developed countries. Furthermore, since the demand for such products as a rule is fairly responsive to price changes, a cut in tax rates may induce a significant expansion in the export earnings of developing countries.

It is not easy to determine whether, in any developed country, foreign manufactures, including those from developing countries, are subject to higher

<sup>44</sup> It may also be noted that customs formalities are frequently made more complicated by the collection of various minor fees in addition to customs duties. In the case of certain commodities the sum total of such fees may produce a slight protective effect.

internal taxes and fiscal fees than domestic products.<sup>45</sup> It is true that several continental western European countries impose a turnover tax surcharge<sup>46</sup> on imports when competing domestic products are subject to turnover tax, excise duties or other similar taxes. These surcharges do not, however, appear to discriminate effectively against imports;<sup>47</sup> they are low, being commonly less than 5 per cent,<sup>48</sup> and, in any case, do not discriminate between commodities of importance to developing countries and imports in general.

It is commonly believed that regulations designed originally to safeguard national health and safety are at times used for protective purposes. This can take the form of imposing much more stringent regulations on imported than on home-produced goods. In some instances, existing regulations may be used as an excuse for excluding even eligible goods from certain sources. Technical specification requirements may theoretically also serve protective purposes, as may regulations applied ostensibly for national security reasons. Most of these restrictions refer to food products, but in several countries, such as France and Italy, machinery and other equipment are also subject to detailed safety regulations.

<sup>45</sup> With the exception of charges and fees dealt with in the preceding section, in so far as these are considered fiscal.

<sup>46</sup> This term is used in the Netherlands. The corresponding term is "transmission tax surcharge" in Belgium, "turnover equalization tax" in the Federal Republic of Germany and "compensatory tax" in Italy.

<sup>47</sup> United Nations, *Economic Survey of Europe in 1960* (Sales No.: 61.II.E.1), page V-36.

<sup>48</sup> However, in France, the average rate is as high as 20 per cent.

### Measures for the removal of obstacles

The review of trade in manufactures and semi-manufactures presented in the opening section of this chapter has clearly indicated that the exports of the developing countries to the developed countries are, at present, exceedingly small. In view of the need of the developing countries for an expanding flow of foreign exchange to support their development programmes and of the limited prospects for a sufficient expansion of trade in primary commodities, it is apparent that vigorous efforts should be made to achieve substantial increases in exports of manufactures.

The realization of an increasing flow of manufactures from the developing countries necessarily depends primarily on the ability of these countries to produce a rising volume of products suitable for

export; and this is no easy task. It is not enough, however, that these countries seek to enlarge their industrial capacity. It is also necessary that they adapt their products to the specifications demanded in foreign markets, that they increase their industrial efficiency in order to bring their costs and prices more into line with those in developed countries, and that they establish effective commercial channels for their products in importing countries. For countries with only brief past experience in industrial production and in the external marketing of manufactures, these are formidable requirements. But even the most vigorous efforts on the part of the developing countries can be thwarted, or substantially impeded, if these countries do not enjoy access to the markets of developed countries on favourable

terms. And there are unfortunately grounds for maintaining that the access which is currently granted to the exports of these countries fails to meet this stipulation. This is apparent from the description of obstacles to trade presented in the preceding section of this chapter.

In view of the need to maintain or achieve an accelerated pace of economic development, particularly in the light of the targets set for the Development Decade, there is strong cause for a reconsideration of the commercial policies of developed countries in relation to imports of manufactures from the developing areas. Such a reconsideration at the present time, moreover, would be particularly opportune from another point of view. For, in a large number of developed countries commercial policies as a whole are at present undergoing fundamental reexamination and reformulation. The formation of the regional economic groupings in Europe and the enactment of the Trade Expansion Bill in the United States have set the stage for important changes in trade relations. These actions, moreover, have been accompanied by a greater readiness to accept and facilitate adjustments in domestic production in order to accommodate an expanded flow of imports. The present fluidity in current positions with regard to commercial policies thus encourages the hope that new policies may be forged which will more adequately take into account the needs and interest of developing countries.

Measures for the reformulation of commercial policies in the developed countries have, of course, already been under active discussion in international bodies. Attention should be drawn to the recent discussions within GATT which have put new emphasis on the trade problems of developing countries. This new emphasis has found expression in the Programme of Action which was originally put forward by a large group of developing countries and to which a number of developed countries have agreed—subject to certain understandings.<sup>49</sup> It is also important to recall that, both within the United Nations and the GATT, it has been generally accepted that, in future tariff negotiations, the principle of reciprocity should not necessarily apply to tariff negotiations between developed and developing countries.<sup>50</sup>

<sup>49</sup> See United Nations, "Trade Problems Between Countries at Different Stages of Development" (mimeographed document E/CONF.46/PC/14); and "Submission by GATT" (E/CONF.46/PC/34).

<sup>50</sup> See The Ministerial Declaration of GATT of 30 November 1961 in General Agreement on Tariffs and Trade, *Programme for Expansion of International Trade: Trade of Less Developed Countries*, Special Report of Committee III (Geneva, 1962), page 24; and resolution 1707 (XVI) of the General Assembly of the United Nations.

Such steps give rise to the hope that more decisive forms of action could be agreed upon. It is the purpose of the sections that follow to consider some of the principal measures which have been proposed to facilitate imports of manufactures and semi-manufactures from developing countries.

Before these measures are considered in detail, however, it has to be recognized at the outset that the possible effects of the removal or reduction of trade barriers on the flow of exports of manufactures from the developing countries are uncertain. There can be little doubt that the elimination of quantitative restrictions would be followed quite quickly by an increase in the flow of exports of certain classes of products which have already proved themselves to be highly competitive with domestic products. This would apply most notably to cotton textiles, though it should be noted that, even among these products, the competitive advantage of developing countries has not been general but has been limited to certain categories. Indeed, it is exactly for this kind of reason that an assessment of the extent to which the removal of quantitative restrictions would increase total exports cannot be reached by means of any general analysis, but would have to be based on detailed studies of demand and supply conditions in the markets for specific products.

The same consideration necessarily applies to evaluation of the effects of tariff reductions on trade. It is probable that, by comparison with the removal of quantitative restrictions, a longer period would have to elapse before the full effect of tariff reductions on the volume of trade took hold. But, as with quantitative restrictions, it is extremely difficult to assess the magnitude of this effect in the absence of studies on a product-by-product basis.

Such specific studies would almost certainly indicate that the whole set of market conditions determining the response of import demand and export supply to a tariff reduction varies widely among the different products exported by developing countries. Even assuming that output of all the different products could be readily expanded to permit enlarged flows of exports, the actual changes in trade would vary greatly in accordance with the response of import demand to the reduction in tariffs. For one thing, the extent to which a tariff reduction is translated into lower prices to purchasers of imported products depends on the specific market structure for each product. Tariffs are usually levied on the landed cost of the product and, even if the whole cost of a tariff reduction is passed on to the purchaser, the percentage decline in price to the purchaser is necessarily lower than the percentage fall in landed cost; for, the final price has to cover additional internal costs, such as the costs of distri-



bution. The response of purchasers will also be conditioned, not only by the amount of the price decline, but also by the extent to which the imported product is, in fact, a close substitute for domestic products. In many classes of manufactures, products differ not only in price, but also in quality and specifications, and it is the sum of these attributes, rather than the price alone, which determines the decision to purchase. The importance of factors other than price in influencing demand for imported products—sometimes adversely, sometimes beneficially—needs hardly be stressed. Further, even if imported and domestic products are close substitutes, the effect of a tariff reduction on demand for imports will also depend on the response of domestic producers to the intensified price competition; if domestic producers were able to reduce their prices in line with the lower import prices, while maintaining their level of output, the share of imports in total domestic supplies might not increase at all. On the other hand, the lower price of the imported product might conceivably encourage consumers to expand their total purchases so that imports increased without any significant change in domestic output. Finally, it has to be remembered that, even if lower tariffs gave exporters a decisive price advantage over domestic producers, the former could only take full advantage of this situation if they could readily expand their own output without incurring higher costs of production.

Even if studies of these factors on a product-by-product basis were conducted for all the exports currently shipped by developing countries, these might still not yield a fair picture of the total potential effect of a general tariff reduction. For, such a reduction may also be of value in opening up markets for new products not previously exported. In fact, the importance of the removal or reduction of trade barriers may not lie so much in its effects on current trade as in its longer-run effects. It is possible, for example, to entertain serious doubts as to whether the current response of purchasers in developed countries or of producers in developing countries to a general reduction in tariffs of the order of magnitude at present being considered by developed countries would be very strong. But there are imponderables in any major revision of commercial policies which may give rise to consequences that only become evident in the longer run. If the developed countries took decisive action now to remove or reduce the barriers to exports of developing countries, this could be interpreted as evidence of an intent to maintain easier access to their markets in the future. The intent being substantiated by the evidence of action, the developing countries themselves would surely be more inclined to take account of the advantages of international specialization in

the plans for economic development and would be encouraged to press forward their programmes for export promotion with much greater vigour. The long-term effect of these changes in policies upon the flows of trade between the two groups of countries might be substantially greater than any analysis of demand and supply responses would give reason to expect.

#### REMOVAL OF QUANTITATIVE RESTRICTIONS

As described in an earlier section, the general trend in commercial policies of the developed countries throughout the last decade or so has been towards the dismantling of those quantitative import restrictions which impede their exchange of exports of manufactures. Throughout this process of progressive dismantling of import controls, however, there has been a hard core of import restrictions which have been persistently maintained. These are applied mainly by some western European countries and bear heavily on certain manufactures—most notably, textiles—which are exported by the developing countries; these restrictions, moreover, tend to be applied in a discriminatory manner against imports from non-OECD countries. Additionally, in the field of textiles, the agreements recently reached under bilateral arrangements and under the international cotton textiles arrangements have introduced new restrictions in the form of negotiated limitations on exports by the exporting countries. Thus, the principal class of manufacture exported by the developing countries has not benefited from the trend among developed countries towards the elimination of quantitative restrictions but has been subject to greater quantitative regulation.

If recommendations for the alleviation of this situation are to be realistically founded, it is obviously important that the motives behind such restrictions and regulations should be appreciated. In this regard, some influence undoubtedly has to be ascribed to the view, still held by many, that low-income countries, by virtue of their low wages, can gain an “unfair” competitive advantage in world markets for manufactures. It is evident, for example, that this view has tended to affect the attitude of a number of developed countries towards their trade relations with Japan. When Japan acceded to the General Agreement on Tariffs and Trade, a number of the other Contracting Parties—mostly countries in western Europe—invoked article XXXV of the Agreement; by so doing, they withheld their consent to apply the Agreement to their trade relations with Japan and thereby retained their freedom to restrict or regulate Japanese imports.

It need hardly be said that the identification of low wages with a competitive advantage in world trade in manufactures constitutes a grossly over-

simplified and misleading interpretation of reality. It is certainly true that, in an industry in which wages are a large element in costs, a low-income country may possibly enjoy a competitive advantage by virtue of its low wages. But wages are only one element in costs and the competitive advantage of different industries depends as much on such other determinants of costs as the state of their technological advance, their capital stock, the benefits which they derive from economies of scale and external economies, and the cheapness of their raw materials. It is only a statement of the most obvious fact that developing countries generally suffer from a serious competitive disadvantage in most branches of industry. Further, as is very well understood, even if wages were the main determinant of costs, it would still be to the advantage of a high-income country to trade with a low-income country, importing products which the latter could produce relatively cheaply in return for exports of its own relatively cheaper products. Still, though it is widely appreciated that the cheap labour argument has no general validity for trade relations as a whole, there are none the less times when the imagined fear of extensive competition from cheap labour countries colours the political climate and becomes an excuse for the pursuit of discriminatory commercial policies. Since policies towards Japan have been symptomatic of this general attitude, it is somewhat encouraging that, in the very recent past, a number of the developed countries which previously invoked article XXXV of the GATT against that country have ceased to do so. It has to be added, however, that the revocation of article XXXV against Japan has usually been accompanied by the negotiations with Japan of export or import quotas on a number of "sensitive" products besides textiles.<sup>51</sup>

While the influence of vague and indeterminate fears about cheap labour competition should not be discounted, it has to be recognized that the resistance to imports of manufactures from developing countries also has more tangible origins. The principle manufacturing industries in which these countries currently enjoy a competitive advantage, notably, the textile industries, are generally among the low-growth or stagnant industries in the developed countries.<sup>52</sup> Accordingly, the burden of adjustment

to a substantial expansion in imports from these countries would tend to fall upon the less viable industries in the economies of the developed countries. Particularly if imports expand sharply over a short period of time, they may be viewed as aggravating the relatively depressed condition in which domestic industry may find itself. It is, however, very easy to exaggerate the difficulties that are generated by increased imports. Imports from developing countries do not necessarily constitute more than a small fraction of total domestic supplies;<sup>53</sup> and the difficulties experienced by a domestic industry as a result of effective competition from imports are often small in comparison with the more fundamental difficulties that arise from technological progress and changing consumers' tastes within the domestic economy itself. But it is also true that the difficulties originating in increased imports can be quite easily alleviated by protective action while the difficulties arising from the latter causes cannot.

A lesson to be drawn from this situation is that, as a corollary to the adoption of more liberal trade policies with regard to imports which compete with low-growth domestic industries, there is need for conditions within the developed countries which facilitate the transfer of resources from the less to the more competitive industries. Thus, it is essential for the pursuit of liberal trade policies that high and rising levels of employment and output be maintained within the economies of these countries. But this may not be enough. If a rising volume of imports entails the displacement of current domestic output, structural adaptation may still prove difficult of achievement; and, in these circumstances, some form of direct public assistance to the affected industries may be necessary if resistance to more liberal commercial policies is to be overcome and the burden of adjustment is not to be borne wholly by particular industries and their employees. It is encouraging that, as noted elsewhere, this need for trade adjustment assistance has recently gained wide recognition and has led to legislative action in a number of developed countries.

But, if there is need within the developed countries to spread the burden of adaptation to rising imports, it is also important that the burden be shared among developed countries. It is not to be forgotten that in the field of textiles, imports from developing countries are heavily concentrated in a few developed countries, particularly the United Kingdom and the United States. A number of western European countries continue to apply severe,

<sup>51</sup> Among the restricted products are sewing machines, toys, pottery, alloyed steels, radio and television receivers, photographic equipment, precision tools, and medical apparatus. Some of these products are of actual or potential interest to exporters among developing countries.

<sup>52</sup> Between 1950 and 1962, for example, output of the textile industry in the countries of EFTA declined at an annual rate of 0.5 per cent, mainly because of the continued contraction of the industry in the United Kingdom. In the United States, the annual rate of increase in output was about 1.5 per cent and in the EEC countries about 3 per cent.

<sup>53</sup> In the United States, for example, which is a principal importer of textile products from the developing areas, the share of imports from these areas in total domestic supplies of textile mill products in 1960 was only 1.5 per cent.

quantitative import restrictions—restrictions which, moreover, discriminate against imports from outside the area. The cotton textiles arrangements provided for a limited relaxation of restrictions by such countries, but a more substantial relaxation could be wished. If access to markets in these countries were easier, moreover, the principal importing countries might feel less compelled to take defensive action to protect their own industries.

The national policies pursued by developed countries with regard to quantitative restrictions on manufactures exported by developing countries clearly fall far short of the principles enunciated in the GATT. To some extent, the difficulty lies in the concentration of developing countries on exports which compete with low-growth or stagnant industries in the developed countries; and this offers yet another reason why developing countries should seek to diversify their exports of manufactures. Still, there are solid grounds for the claim by developing countries that the policies of developed countries are both discriminatory in effect and are subject to change by unilateral action; both are features which run counter to the principles accepted in trade in manufactures among developed countries. There is clearly room for formulation of more internationally acceptable rules of conduct to govern commercial policies affecting imports of manufactures from developing countries. This, moreover, could go some way towards allaying the fears of developing countries that past practice with regard to imports of textiles may, on the pretext of unfair competition from low-wage countries, be extended to other classes of manufactures.

The GATT Programme of Action constitutes a step in this direction. The standstill measure contained in the Programme stipulated that no new quantitative restrictions affecting imports from the developing countries should be imposed. As a further measure, the Programme recommended that existing quantitative restrictions which are inconsistent with the provisions of the GATT should be eliminated within the period of one year. Where, on consultation between the developed and developing countries concerned, it was established that special problems prevented such action being taken within this period, the Programme recommended that restrictions on the affected items should be progressively reduced and eliminated by the end of 1965. However, not all the developed countries expressed agreement with this Programme, and its acceptance by those which did so was subject to a number of understandings. It was stipulated, for example, that acceptance was without prejudice to the rights and obligations of Contracting Parties under arrangements negotiated within the framework of the GATT.

## REDUCTION OF GENERAL TARIFF BARRIERS

### *Linear tariff reductions*

While quantitative restrictions have persisted as a major barrier to manufactures exported by the developing countries, their significance as an impediment to the greater part of world trade has diminished over the post-war years. With the general dismantling of these barriers in trade among the developed countries, increased attention has been given by those countries to the reduction of tariff barriers. As has been pointed out in an earlier section, such barriers have been considerable; and it is a fair presumption that the protective effect of tariffs has fallen at least as heavily on exports from developing countries as on exports from other sources. In fact, some of the highest rates in the tariff schedules of developed countries apply to light manufactures, such as textiles, floor coverings and footwear, which are of particular importance to developing countries.

Over the post-war years, a series of tariff reductions have been negotiated under the General Agreement on Tariffs and Trade, and there is no question that, partly as a result of these negotiations but also because of the erosion of the protective incidence of specific rates consequent upon the general upward trend in prices, effective tariff levels have been appreciably lowered. Developing countries have no doubt benefited to a degree from these reductions in tariff barriers. However, it is true that past tariff reductions have tended to be concentrated on products traded among the developed countries. In the item-by-item negotiations conducted under the General Agreement, the products on which tariff reductions have been subject to negotiation have been selected on the initiative of the principal suppliers; and the principal suppliers have generally been developed countries. In addition, the bargaining position of the developing countries in such negotiations has been weakened by the fact that they have not been able to offer appreciable, reciprocal concessions.

From the point of view of the developing countries, the forthcoming round of tariff negotiations gives promise of being distinctly more advantageous, since it has been proposed that these negotiations should aim at achieving across the board, rather than item-by-item, reductions in tariffs. Uniform, percentage reductions applying to tariff schedules as a whole would automatically bring down tariffs on products of particular interest to the developing countries even though the main parties to the negotiations would be the developed countries. The negotiation of across the board or linear reductions in tariffs is, of course, not without its difficulties; extreme disparities among countries in tariff levels on particular products, for example, may necessitate special

arrangements. But the experience of the European Economic Community and the European Free Trade Area with linear tariff cuts indicates that the technique can be successfully applied.

It is obviously in the interest of the developing countries that the list of items which might be excepted from the linear tariff reductions should be held to a minimum. Were the list to become lengthy, it is quite possible that items of particular interest to these countries might be included. Since few developing countries are in a position to take an active part in bargaining for tariff concessions, it would be difficult for them to ensure that the list of exceptions were not weighted against them. Their interests are thus best safeguarded by minimization of the exceptions. It is, therefore, encouraging to note that a number of developed countries have already indicated that they regard most of their tariffs as negotiable and that they wish to keep the number of excepted items to a minimum.<sup>54</sup>

The developing countries also have, in general, an interest in maximization of the amount of the negotiated tariff reductions. In so far as the prices of their export products are an important element in determining the volume of their foreign sales, the greater the reduction in tariffs the more would the competitive position of these countries vis-à-vis domestic producers in importing countries be strengthened. Their position in relation to producers within preferential tariff areas would also be improved through a narrowing of the margin between general and preferential tariffs. This, of course, would not constitute an unqualified gain for those developing countries which are currently members of preferential tariff areas; but against the possible disadvantage of intensified competition within the area, these countries would have to weigh the advantage of easier access to markets outside the area. It may also be noted that in the light of their general interest in maximization of the amount of the tariff reductions, it would be natural for developing countries to support the notion of phased reductions. For, phased reductions, by allowing time for the planning of adjustment by domestic producers to changes in tariffs, can improve the prospects for negotiation of larger tariff reductions.

<sup>54</sup> The United States Government has, for example, expressed its intention to put forward the entire tariff list except those explicitly reserved by law. Only ten items fall under this heading, of which nine are subject to "escape clause" actions. The ten are carpets, glass, lead, zinc, watch movements, stainless steel table flatware, clinical thermometers, safety pins, cloth typewriter ribbons and petroleum. In contrast, at the Dillon round of negotiations, the United States excluded 75 per cent of the items in the tariff list from negotiation. The EFTA, at a ministerial meeting, also declared that exceptions should be kept to a minimum.

### *Selective tariff reductions*

Negotiations among developed countries intended to reach agreement on a linear reduction in tariffs does not preclude the possibility that, at the same time, additional reductions on items of particular interest to developing countries might be introduced. On the grounds that the adoption of a particularly liberal trade policy towards the developing countries would constitute an important contribution to their economic development, the developed countries might agree to go beyond the linear tariff reductions in regard to products of special interest to the other group.

If this approach of selective tariff reductions were taken, some difficulty would certainly arise in drawing up a list of products which might be deemed to be of particular interest to the developing countries. One possible criterion might be the relative importance for current export earnings of the developing countries of the different products exported to the developed countries. The list might, for example, be confined to products which each accounted for, say, at least one or 1.5 per cent of total earnings derived by these countries from exports of manufactures to the developed countries. Such a criterion, however, would limit the list to quite a small number of products. If, for example, the criterion was that each product should account for 1.5 per cent or more of total exports of manufactures to the developed countries, no more than a handful of items would appear on the list (*see* table 7-7); and selective tariff reductions on items in such a short list would accordingly be of benefit to the exports of a correspondingly small group of developing countries. On the other hand, if the list were lengthened sufficiently to become of interest to developing countries generally, the number of included products might become very large.

Alternatively, it could be argued that a list based on the more important of the currently exported products would not be sufficiently forward looking and that it would be more valuable to make selective tariff reductions on new exports which show promise of becoming important. Such selective reductions would have the advantage of encouraging the diversification of exports; they might also help to lessen the danger that further concentration of the export drive on a few items of current importance would stiffen demands in the importing countries for the retention or intensification of quantitative restrictions. As has been pointed out in an earlier section, some of the manufactures which have enjoyed high rates of growth in exports to developed countries—most notably, textiles—have been particularly vulnerable to demands for quantitative restrictions in the importing countries since they

have been competing with domestic industries which are among the least viable in these countries. There are, however, other manufactured exports, such as certain simple types of machinery, which have been showing promise of rapid growth and which not only account for a very small proportion of the total imports of such manufactures by developed countries but are also confronted with a dynamic growth in demand. Of course, it has to be recognized that, since the value of such exports is extremely small at present, the immediate benefit to developing countries of selective tariff reductions would not be considerable.

Either of the above criteria provides a possible basis for the preparation of a selected list of products on which tariff reductions over and above the agreed linear reductions might be negotiated. However, whatever the basis of the list, there is a major difficulty that would arise in the application of selective tariff reductions to which reference has not so far been made. It is that, unless there were agreement to introduce a preferential tariff system for the listed products imported from developing countries, the selective tariff reductions would apply as much to trade among the developed countries as to imports from the developing countries. Consequently, unless the developing countries were the dominant suppliers of the listed products, the negotiation of selective reductions would necessarily become a matter of bargaining on an item-by-item basis among the developed countries. That it would be possible to undertake such negotiations is obvious; but it is also plain that if they embraced more than a relatively small number of products, they would be difficult to reconcile with the principle of linear reductions envisaged as the basis of the forthcoming tariff negotiations.

If the developing countries were the dominant suppliers of the selected products, this difficulty would be considerably lessened. It is a fact, however, that even if the term "dominant supplier" is very liberally defined, there are very few products exported by the developing countries which might qualify for such a description. For example, at the three-digit level of the SITC, there are currently only about fourteen products imported by the developed countries from the developing countries which account for 10 per cent or more of total imports of each of these products (*see* table 7-7).

These arguments do not necessarily mean that, as a means of supplementing linear tariff reductions, there is no scope at all for selective tariff reductions on certain products of particular interest to some developing countries; but they do point to the existence of serious obstacles to a comprehensive approach based on general criteria of selection.

Consideration of obstacles on an item-by-item basis perhaps offers a more practical, if also more limited, approach to selective tariff reductions; this might reveal specific possibilities for the selective reduction of barriers which could be negotiated without encountering serious objections.

To an extent, Committee III of the GATT has been undertaking work along these lines for a number of manufactures as well as primary commodities (*see* appendix table 7A-2). The main activity of the Committee has consisted in identification of the range and magnitude of the obstacles to exports, attention having been given to both non-tariff and tariff barriers. The functions of the Committee, however, has been advisory and it has not been in a position to initiate negotiations on specific items. A measure to realize a reduction in tariffs on the items contained in the lists studied by Committee III was recommended in the GATT Programme of Action. This proposed an across the board tariff reduction on these items of 50 per cent, phased over three years. Since the proposal was understood to be without prejudice to the General Agreement, it would appear that it did not imply the introduction of preferential tariffs for developing countries; as a basis for negotiation, it would therefore run into the difficulties mentioned above in regard to selective tariff reductions. Moreover, if the linear tariff reductions agreed upon in the forthcoming tariff negotiations were to reach 50 per cent, the proposal would lose its special significance for the developing countries.

#### PREFERENTIAL MEASURES

##### *General considerations*

The discussion in the preceding section has suggested that, within the existing framework of tariff arrangements, the scope for measures designed specifically to enhance the export prospects of developing countries appears limited. Linear and selective reductions in tariffs would generally tend to strengthen the competitive position of exporters in developed and developing countries alike. If, however, preferential treatment were accorded to exports from developing countries, the relatively weak position of these countries as competing producers in world markets for manufactures could, to some extent, be improved. Over the past decade or so, substantial advances have been made in the application of this idea to trade among groups of developing countries. More recently, however, considerable interest has also been expressed in the possibility of introducing preferential tariffs for the exports of

developing countries in their trade with developed countries.<sup>55</sup>

An immediate question that arises in regard to this proposal is its relation to the most favoured nation principle. Governments may entertain serious misgivings about the introduction of any such preferential system on the grounds that it would conflict with this principle. There can be no doubt that the general recognition of the most favoured nation clause has, through the years, played a crucial role in containing forces that might tend to fragment the world trading system. Without the restraint provided by broad acceptance of this relatively simple rule, discriminatory practices and retaliatory actions might readily multiply—to the common disadvantage of all trade countries. Strong justification is, therefore, required for international acceptance of deviations from a principle that is of proved value in furthering non-discriminatory trading policies.

It has, however, come to be increasingly recognized in post-war years that the international rules of conduct drawn up to govern trade relations are mainly relevant for trade among developed countries and cannot be applied rigidly to trade between countries at widely different stages of economic development. Only recently, as noted earlier, it was officially recognized that the principle of reciprocity in tariff negotiations need not apply in regard to negotiations with developing countries. It has long been accepted that tariffs were a justifiable instrument for the protection of infant industries in individual countries; and the particular importance of such protection for the economic growth of developing countries has been obvious. But with enunciation of the view that reciprocity need not apply to developing countries, it has now been recognized that the need to use protective tariffs for economic development should not exclude developing countries from the benefits of tariff reductions in the developed parts of the world.

It is now being argued that the introduction of a preferential tariff system would only carry this recognition of the necessity for asymmetry in the

commercial policies of developed and developing countries one step further. If the nascent industries producing for the domestic market in developing countries require protection from foreign competition, it is no less true that the new industries producing for export require special measures of support to render them competitive in foreign markets. The provision of relatively low tariffs by developed countries on competing exports from developing countries may be considered as a corollary to acceptance of relatively high tariffs for import-competing industries within developing countries.

The pursuit of commercial policies which discriminated in favour of a particular group of countries would, of course, not be a novel event in international trade. Arrangements of this nature have often been, and still are, widely practised and tolerated. As will be recalled, during the earlier post-war years, the western European countries were allowed to discriminate in favour of each other under the liberalization code of the Organisation for European Economic Co-operation. The scarce currency provision contained in the Articles of the International Monetary Fund also permitted these countries to discriminate against imports from the dollar area. With the later establishment of the European Economic Community and the European Free Trade Area, the differentiation in commercial policies between member and non-member countries has since been introduced into the area of tariff schedules. And it need also hardly be recalled that trade between some developed and developing countries has long been conducted within the framework of accepted preferential tariff arrangements.

International agreements drawn up to establish rules for the conduct of trade relations among nations have, of course, recognized that, under certain circumstances, exceptions to the most favoured nation principle are permissible. The Havana Charter provided for exceptions, first, to ensure that certain existing preferential arrangements, chiefly those between the Commonwealth countries, might continue, and secondly, to remove any bar to the creation of free trade areas and customs unions between countries desirous of promoting these arrangements among themselves. In addition, however, article 15 of the Havana Charter permitted the introduction of new preferential arrangements between two or more countries belonging to the same region if it could be shown that these arrangements were designed to further their programmes of economic development. Proposals for the establishment of such arrangements could be approved by the International Trade Organization, subject to the submission of satisfactory evidence that the arrangements would lead to the development of an industry on a sound

<sup>55</sup> This possibility was raised at a meeting of the GATT Committee III in March 1963; and at a ministerial meeting two months later it was concluded that a working group to study the proposal should be established. The working group held its first two meetings from 7 to 11 October 1963 and from 11 to 18 December 1963. See General Agreement on Tariffs and Trade, "Measures for the Expansion of Trade of Developing Countries as a Means of Furthering Their Economic Development" (document MIN (63) 7), page 12, and "Summary of Points Raised at the Working Party on Preferences in October 1963" (document L/2073). The proposal was also discussed at the second session of the Preparatory Committee of the United Nations Conference on Trade and Development. See United Nations, "Report of the Preparatory Committee of the Conference on Trade and Development, Second Session" (mimeographed document E/3799).

economic basis and that they would not cause undue injury to the interests of other countries. The Articles of the GATT embodied the first pair of exceptions contained in the Havana Charter. It did not, however, include the third. A proposal to insert the provisions of article 15 of the Havana Charter relating to the establishment of preferences for economic development was rejected when the GATT was revised in 1955. The main grounds for rejection were that further departures from the most favoured nation clause in addition to those explicitly permitted under GATT could be considered under article XXV. This article provides that the Contracting Parties may, if agreed by a two-thirds majority, suspend the obligation to adhere to the conditions of the Agreement for a limited period.<sup>56</sup>

The criticism has been voiced that the exceptions to the most favoured nation principle thus far included in international agreements have referred to circumstances which are of particular interest or relevance for developed countries. The preferential systems specifically sanctioned by GATT were inherited from colonial arrangements; and mention has already been made of discriminatory measures under the OEEC liberalization of quantitative restrictions. The exceptions relating to free trade areas and customs unions, while applicable to both developed and developing countries, have been of particular interest to developed European countries.<sup>57</sup>

The case for a preferential tariff system to be applied by the developed countries to imports of manufactures and semi-manufactures from the developing countries derives its strength from the manifest need of the latter to accelerate the rate of growth in their total export earnings. Such a system could accordingly in no sense be regarded as a substitute for the reduction or removal of the existing barriers to exports from the developing countries which have been described earlier; it could only supplement action on these barriers. Acceptance of the principle of preferential treatment, however, would denote a major reorientation in attitudes towards the use of commercial policies for economic development and this, in itself, could hasten the reduction of other obstacles. For such acceptance to be meaningful, some positions would have had to be reached with regard to the broad form which a system of preferential tariffs might take. In the following paragraphs, some of the main issues that would arise

in devising a system and some of the alternative systems which have been proposed are discussed.

#### *Principal features of a preferential tariff system*

The primary feature of any system of preferential tariffs is the flows of world trade to which it applies. Before a system of preferential tariffs can be introduced, there are many other questions which also have to be settled, but none are so basic as this characteristic. This means that, in drawing up any proposal for a preferential tariff system, the primary issues that arise are, first, the question of the countries between which trade is to be treated preferentially and, secondly, the question of whether such preferential treatment is to apply to all or part of the trade between these countries. Hardly less important, however, is the question of the extent and duration of the preferences to be accorded to trade. While, for ease of exposition, these issues are discussed separately below, it will become apparent that they must finally be considered together.

#### *The choice of countries*

Establishment of a single, international system of preferential tariffs such as might gain broad acceptance within the United Nations would presuppose widespread participation on the part of both developed and developing countries. While the interests of developing countries in alternative preferential systems need not coincide and may give rise to disagreement on particulars, there is little question of their general support for the principle of preferential treatment for their exports. The doubt arises in the case of the developed countries. And it would obviously be crucial to the acceptance of a common preferential system that most, if not all, of these countries expressed willingness to participate. It could be expected that the consent of each would be conditional on the consent of others; otherwise, each would be restrained from participation by the fear that it would suffer a disproportionate burden in accommodating its economy to an increase in exports from the developing countries. The widespread participation of developed countries would not only be needed on economic grounds but would also carry an important non-economic advantage. By investing the preferential system with a broad international character, it would provide for participation of all developing countries without regard to any ties with particular developed countries.

The classification of countries into those which are to extend preferential treatment and those which are to benefit from it, would no doubt give rise to certain difficulties. It may be postulated that, since the underlying purpose of a preferential system would be to facilitate economic development,

<sup>56</sup> Thus far, actions under article XXV have been limited to very exceptional and relatively minor cases. It is also open to question whether the article could be invoked in regard to the obligations of the developing countries when taken as a group.

<sup>57</sup> All the legal issues raised by these arrangements have not, of course, yet been resolved. This is true particularly of the preferential treatment accorded to the associated countries of OEEC.



the differentiation should depend on the stage of development. The level of per capita income or output, the share of manufactures in national product, the degree of diversification of industrial production and export and the long-term structural balance of payments problems associated with economic development might, for example, be accepted as rough guides to the stage of development. Still, it will be evident that the mechanical application of these or any other statistical measures—even if sufficiently accurate from a technical viewpoint—would not resolve the issue. This is so, first, because any measure or combination of measures which might be accepted as indicating the stage of development would inevitably contain some element of arbitrariness and, secondly, because economic development is in any case a relative concept. An element of judgement would therefore necessarily enter into the classification. This would not be a source of difficulty as regards the classification of most countries. The main practical difficulty would arise with regard to a small group of border-line countries which may be regarded by some as relatively developed and by others as developing; provision might therefore have to be made for an intermediate group or groups of countries which though not sufficiently developed to accord preferential treatment to developing countries would nevertheless either receive a more limited degree of preferential treatment than other developing countries or none at all.

It could be argued that some of the developing countries, since they are industrially more advanced and enjoy at least some competitive advantage in international trade, have less need than others of preferential treatment to stimulate the growth of their export trade in manufactures and semi-manufactures. If the industry of these countries is still in a weak position when it has to meet the competition of industry in developed countries, it may none the less enjoy greater competitive strength than industry in other developing countries. On these grounds, a case could perhaps be advanced either for the exclusion of the industrially more advanced countries from the preferential system or for the provision of a greater margin of preference for the industrially less advanced countries. The latter solution would imply a dual scale of preferential tariffs, though even more than two scales could be justified by this line of argument. Quite apart from other considerations, however, a practical limitation on the number of scales would be imposed by the height of the general tariffs prevailing in developed countries. Since the present average tariff level of developed countries amounts to 15 per cent *ad valorem* and since there is the prospect of an early reduction in this level, the scope for introduction of significant differences

among developing countries in the size of the preferential margin accorded to them would clearly be restricted.

The case for a preferential system based on the stage of industrial development or degree of competitive strength can only be assessed in terms of the purposes which such a system is conceived to serve. If the aim is specifically to encourage the growth of an export trade in manufactures in each of the developing countries, then some differentiation among these countries might appear to be warranted. On the other hand, the purpose of a preferential system can be more broadly conceived as one of a number of international measures intended to assist the economic development of the developing countries. It would contribute to this aim by helping to stimulate the growth of export earnings of these countries. And it is obvious that such growth is as much needed by the industrially more advanced of the developing countries—some of which number among the lowest per capita income countries in the world—as by the industrially less advanced of these countries.

It has also to be borne in mind that the criterion by which countries might be selected for preferential treatment would, in practice, probably be much influenced by views with regard to the extent of the preferences to be accorded. Were the extent of the preferential treatment accorded to each developing country to be limited by some system of export quotas—as described below—the issue of whether there should be some differentiation among developing countries in the size of the preferential margin would lose some of its practical significance.

#### *The choice of products*

Very similar considerations arise when attention is turned to the second question of whether preferential treatment should be extended to all or part of the manufactures and semi-manufactures originating in the developing countries. As with countries at different stages of industrial development, it may be maintained that industries in developing countries are not all equally in need of preferential treatment for their exports. It has been noted earlier that a system of preferential tariffs can be justified as a necessary support for young export industries on the same grounds as protective tariffs can be defended as necessary for infant domestic industries; and the corollary of this argument is that, once the export industry has acquired competitive strength, preferential treatment should be withdrawn in the same way as protection should be removed from a mature domestic industry. Thus, it may be contended that the system of preferential tariffs should apply only to infant export industries and not to industries which are already competitive.



Like the argument with regard to the differentiation of countries at different stages of industrial development, this view may be contested by reference to the underlying purpose of a system of preferential tariffs. It can be asserted that the aim of such a system would not simply be to lessen the inequalities in competitive strength between developed and developing countries or among developing countries; it would be to contribute to the growth in export earnings of the developing countries. This aim might be partially defeated if the products of industries which had acquired some competitive strength were to be excluded from preferential treatment. For, rigorous application of this criterion would mean that it would be particular industries in particular countries which might be deemed to be competitive and therefore subject to exclusion from the preferential system. The same industries in other countries, however, would continue to enjoy preferential treatment. Thus, exclusion of the output of some industries in some countries could give rise to exactly the same objections as exclusion of some countries on the grounds that they were industrially more competitive.

As a possible way of avoiding the need to differentiate between developing countries in regard to their relative competitive strength in the same lines of production, it could be suggested that there should be established a common list of manufactures and semi-manufactures on which all developing countries would be accorded the same preferential treatment. This list might consist of products which are of particular interest to developing countries and on which tariff reductions would be generally acceptable to developed countries.

This proposal resembles the suggestion discussed earlier that selective tariff reductions might be made on a list of those products of particular interest to developing countries. It has the advantage, however, that it overcomes one of the major obstacles to such selective reductions. It will be recalled from the earlier discussion that a practical difficulty in the selective reduction of general tariffs is the fact that most products of particular interest to developing countries bulk still larger in trade among the developed countries. Negotiations for reductions in selected tariffs could therefore not be readily separated from general tariff negotiations among developed countries. If, however, the selective reductions took the form of the introduction of preferential tariffs for developing countries, the question of the effect of these reductions on trade among the developed countries would become less important.

As in the case of selective tariff reductions, however, the preparation of a generally acceptable list of items to which preferential tariffs would apply, would be likely to present considerable difficulties.

If, for example, it were decided to extend preferences only to those products which currently did not enjoy a strong competitive advantage in international trade, there would obviously be room for considerable differences of opinion as to which products fulfilled this condition and which did not; and the same would apply to other possible criteria. Whatever the criterion, an item-by-item approach would be essential; and, if past international experience of tariff negotiations on an item-by-item basis is any guide, the degree of tariff preference agreed upon by the developed countries for each item would generally tend to be close to the smallest concession proposed by any one of these countries. Moreover, there would be a strong temptation to offer the least concessions on these items in which the developing countries have begun to demonstrate some ability to compete with the developed countries.

Of course, the establishment of a system of preferential tariffs not for all actual or possible exports from developing countries but only for a limited list of items, would undoubtedly encounter less opposition within the developed countries. It would certainly be claimed that, at the present time, there are a number of products being exported by developing countries which enjoy a strong competitive position in the developed countries; and there would be a decided reluctance to extend preferential treatment to such products. Indeed, as has been discussed earlier, the main problem confronting developing countries in regard to certain products—notably, various textiles—is to secure greater access to the markets of developed countries through the reduction or removal of import restrictions. Thus, although it might be more fruitful to adopt an across the board, rather than an item-by-item, approach in the establishment of a preferential tariff system, the adoption of the former method might be feasible only if certain products were excepted from the preferential schedule.

#### *Extent and duration of preferences*

If it can be assumed that certain developed countries would be unwilling to extend any preferential treatment to certain manufactures now being exported by developing countries, it is also likely that such preferences as they might be willing to accord to other possible imports of manufactures would not be unlimited in extent or duration. A preferential tariff system would, after all, be equivalent in effect to the indirect subsidization of exports from developing countries; and the developed countries might be unwilling to commit themselves to provide an indirect subsidy to these exports to an unknown degree. However, the proposal for a preferential tariff system could be rendered more acceptable to these countries if known limits were set to their obligation to extend preferences. These limits could be defined in terms both of the amount of imports to be accorded

preferences and the duration of the preferential arrangement. Such limits would have the added advantage of making more acceptable preferential arrangements which applied to all developing countries and products.

A factor influencing the volume of imports flowing in under the preferential arrangement would obviously be the size of the *preferential margin* itself. The larger the margin, the more might the preferential system provide developing countries with a price advantage in competition with producers in developed countries and the greater might the effect of the system consequently be on the volume of trade. The level at which the preferential margin was set would not in itself remove uncertainty about the possible volume of preferential trade, but it would influence views as to whether such uncertainty was actually a cause for concern.

In this context, it is worth noting the size of the possible preferential margin that would be at issue. The current level of general tariffs applied by the developed countries to manufactures stands at about 15 per cent, calculated as a simple average of the tariffs on all individual items. Were this level to be reduced by one-third to one-half at the forthcoming GATT tariff negotiations, the future average level would range between 10 and 7.5 per cent. Thus, even if preferential duties were all fixed at zero rates, the maximum possible margin of preference which developing countries could enjoy on the average would be between 10 and 7.5 per cent. For comparison, it may be noted that the present margin of preference extended to manufactures imported by the United Kingdom from other Commonwealth countries amounts, when calculated in the same way, to about 15 per cent.

A preferential system offering zero rates of duty on all items would imply that high-tariff countries would have to offer a greater margin of preference than low-tariff countries. Similarly, it would provide a greater margin of preference on high-tariff items, though these are usually the items on which protection is deemed to be most necessary. Less drastic methods might be to reduce the general tariff by a given percentage, say 50 per cent, or by a fixed number of percentage points, say, ten. The former method would be similar to the linear reductions envisaged for the forthcoming GATT tariff negotiations. The method can be applied generally to all tariffs, with the possible exception that tariffs below a certain point, say, 2 per cent *ad valorem*, might be waived altogether to avoid nuisance.<sup>58</sup> The

latter method has sometimes been used for calculating the margin of preference in existing preferential arrangements. Difficulties are encountered in the application of this method, however, when extreme disparities between high and low rates exist; a 10 point margin would, for example, yield a zero preferential rate when the general rate was 10 per cent or lower, and a 90 per cent rate when the original rate was 100 per cent. A third possible method for determining the preferential margin would be to combine both percentage and percentage point reductions in a more complicated automatic formula.<sup>59</sup>

In addition to varying the preferential margin, it has also been suggested that the extent of the preferential treatment extended to exports from the developing countries could be limited by the introduction of *preferential quotas*. Under this proposal, exports from these countries up to the amount of the quota would be accorded preferential treatment; exports in excess of the quota would attract duties at the rates specified in the general tariff schedules. Thus, it should be understood that the quotas would only set limits to the volume of preferential trade and would in no way imply any restriction of non-preferential trade.

The most general system of quotas which might be regarded as feasible would be the assignment of a global quota to each of the developed countries. Under this arrangement, each of these countries would agree to accord preferential treatment to all exports from the developing areas up to the value of the quota; thus, within the limit of the global quota, preferential treatment would be applied in a non-discriminatory manner to all exports from all developing countries. To ensure that all developing countries would have the opportunity to benefit from these quotas, some system of export quotas might also be established for these countries. Finally, as a means of limiting the volume of preferential trade in the few possible products whose exports might be deemed to give rise to situations of market disruption, the system of quotas could be elaborated to include specific import and export quotas in these particular instances. These various proposals are discussed in greater detail in the next section.

The third form of limitation which might be placed on a preferential system is a definition of the period during which preferential treatment is to be accorded. It would be generally agreed that preferential arrangements should be a temporary measure which should be terminated when conditions no longer warranted its continuance. The exact *duration* could be made to depend on the

<sup>58</sup> The Trade Expansion Act of the United States, for example, authorizes the President to negotiate complete elimination of duties for any article for which the *ad valorem* duty is not more than 5 per cent. It also authorizes the rounding off of duties up to one-half of one per cent.

<sup>59</sup> An example is the automatic formula being considered at GATT for the general purpose of reducing disparities in tariff rates of different countries.

criteria of eligibility. If, for example, eligibility were determined by the general level of per capita income, a country might cease to enjoy preferential treatment for its exports once its per capita income had surpassed a certain level. This would mean that the duration of preferential treatment would vary with the selected criterion. Choice of the competitiveness of industries as the criterion, for example, will yield a different duration from that of per capita income.

Alternatively, the duration might be decided upon independently of the initial criteria of eligibility. For instance, the preferential arrangement might be arbitrarily fixed for a period of, say, ten years subject to renewal or it might be phased out gradually. This could mean that problems of consistency with the criteria of eligibility might arise; for example, a preferential arrangement could come to an end before countries had attained, say, the critical level of per capita income. On the other hand, the automatic termination of phasing out of the system would, at least, give an opportunity for experimentation and reconsideration of the criteria.

#### *Other considerations*

There are certain other issues which would also have to be resolved before a preferential system could be established. One such would be the question of the relation between the new system and existing preferential areas of which some developing countries are members. Were the developed and developing countries in these areas to become members of the larger system, some programme for the phased unification of the preferential tariffs in the different areas would have to be worked out. Depending on the preferential margin established for the larger system, such unification might entail some loss in the degree of preference which some developing countries at present enjoy in particular markets; and, to the extent to which such loss was not offset by gains from the extension of preferences to the markets of other developed countries, this would raise the question of appropriate compensation through other measures.

Some important technical definitions would also have to be agreed upon. Assuming, for instance, that preferential treatment was to be limited to manufactures and semi-manufactures, a problem of defining such products would arise. The definition of manufactures and semi-manufactures commonly used for statistical and analytical purposes might not be adequate. Some arbitrary decisions would have to be made; and these decisions would inevitably affect particular groups of countries.

A related problem would be the establishment of rules of origin. For the purpose of applying tariffs at the preferential rate, it would not be suffi-

cient to ascertain that the imported products had been shipped from a developing country. The condition would also have to be met that the products had undergone a degree of manufacturing or processing in the developing countries. In the absence of such a stipulation, exports from one developed country to another might be diverted through a developing country and thereby attract import duties only at the preferential rate. Further, if the rules required that only a relatively small proportion of the total value of a product need be created within the country of origin, this might encourage exporters in developed countries to establish subsidiary companies in developing countries solely for the purpose of securing preferential status for their products. Plants might be established, for instance, which did no more than assemble imported parts and re-export the finished product. On the other hand, if the rules required that a relatively large proportion of the total value of a product be created within the country, many products made within developing countries from imported materials and semi-finished products would be disqualified. Many semi-processed goods would also fail to qualify under these rules, since their value added generally constitutes a small proportion of the total value—frequently not more than 15 or 20 per cent.

#### *Alternative preferential arrangements*

In the preceding section, the main issues that arise in consideration of any preferential system have been briefly discussed. As a way of exploring these issues further, it would seem helpful to review some of the proposals for particular kinds of preferential arrangement which have actually been put forward. It will be apparent by now, however, that there is not, in fact, a fixed number of alternative preferential arrangements, each of which can be rigidly contrasted with the others as essentially different. There is rather a range of possible arrangements among which major differences only become apparent when the extremes of the range are compared. The two extremes of the range, however, can be regarded as alternative points of departure from which the formulation of a preferential arrangement could be approached. In this section, these two alternatives are first described and, thereafter, some intermediate possibilities are mentioned.

#### *One-way free trade<sup>60</sup>*

The simplest proposal for a preferential tariff arrangement is a system of outright, one-way free

<sup>60</sup> Cf. Alfred C. Neal, "New Economic Policies for the West", *Foreign Affairs* (New York), January 1961, page 252. See also William Butler, "Trade with Less Developed Areas", *Foreign Affairs*, January 1963, page 382; Lord

(foot-note continued on following page)

trade for the exports of developing countries. Put in its most extreme form, such a system would imply that all imports from developing countries into developed countries would be excepted from the most favoured nation clause; that all developing countries would have unlimited free access to markets in all developed countries; that all commodities would be included in the scheme; that the margin of preference in each developed country would be equal to the general tariff, and that no duration would be specified.

When expressed in this extreme form, both the advantages of, and the obstacles to, the one-way free trade proposal become very easily identifiable. For the developing countries, this proposal would, of course, provide the maximum possible preferential treatment which the developed countries could conceivably accord. But, even though qualifications were introduced as regards the margin of preference and the duration of the scheme, it would still carry the great advantage that it would be non-discriminatory among developing countries; each developed country would extend the same preferential treatment to each developing country, and preferential status would likewise be accorded to all the manufactures exported by the developing countries.

It is exactly this latter feature, however, that would probably also constitute the principal obstacle to acceptance of the proposal. Every developed country would be committed to extend unlimited preferential treatment to all manufactures imported from any country which had been classified as developing. A developed country would have to abide by the general classification of countries though it might have disagreed with the inclusion of certain border-line countries in the developing group. While a solution to this difficulty might be found, still greater objections would be made to the obligation to import any manufacture from the developing countries in unlimited quantities. Since it is already claimed that trade in some products exported by developing countries gives rise to a situation of actual or threatened market disruption, it would undoubtedly be contended that participation in an unqualified, one-way free-trade system would not only aggravate the present situation but would also give rise to fresh instances of disruption. Even if this attitude were not shared generally by the developed countries, its adoption by a few of these countries would probably be sufficient to cause general rejection of the proposal; for, participation by the other countries would mean that they

would be compelled to accept the whole of the burden of adjustment to the possible expansion in trade.

#### *Selected countries and selected commodities*

As a way of avoiding such objections to a preferential tariff system, it has been proposed that preferential treatment might be accorded to particular developing countries for particular commodities by particular developed countries. It has been suggested that the role of tariff preferences is to facilitate the creation in developing countries of viable industries which can participate in international trade. To this end, developing countries, acting singly or after consultation on a regional basis, might indicate the industries for which preferential assistance would be desired. The request might be examined by a mixed committee of importing and exporting countries. The former would agree to the establishment of preferences for a limited period in favour of such industries as appear to give promise of becoming viable in the long run. In order to ensure that the necessary efforts were made in this direction, the developing country might be required gradually to reduce its own import tariffs on the products of such industries.<sup>61</sup>

If this approach were taken, practically all the difficulties that might stand in the way of introduction of a one-way free-trade system would be avoided. The introduction of preferential tariffs would not necessarily be conditional upon the consent of most or all the developed countries; individual countries could extend preferential treatment to selected products or selected developing countries without committing themselves to any general introduction of preferential tariffs. Individual countries could also withhold preference from products which, if imported in larger quantities, would be deemed to engender a situation of market disruption. Border-line countries which are difficult to classify as developed or developing, could be dealt with on an *ad hoc* basis.

There are, however, certain implications of this proposal which have been viewed with concern, especially by the developing countries. It has been noted that this approach would fragment the system of world trade. If preferences were negotiated by individual developed countries on individual products, literally scores of new preferential régimes might be created under this scheme. The preferential tariff of a particular country would not only discriminate between developed and developing countries but also

(foot-note 60 continued)

Franks, "Co-operation is Not Enough", *Foreign Affairs*, October 1962, page 29, and Raymond F. Mikesell, "Problems of International Harmony: Economic Policy for a Lasting Peace", *American Economic Review*, Papers and Proceedings (Manasha, Wisconsin, May 1960), page 266.

<sup>61</sup> See General Agreement on Tariffs and Trade, statement by Mr. Brasseur, Belgian Minister for External Trade and Technical Assistance at the Ministerial Meeting on 17 May 1963. Press release GATT/750, 17 May 1963.

between different developing countries. As a result, it would be impossible to anticipate how the trade of a particular country would be affected by all the new preferential arrangements; and a general waiver of claims under the most favoured nation clause would probably be difficult to obtain. Further, the choice of industries by the developed countries to be favoured with preferential treatment might be strongly influenced by considerations of domestic competition; and industrial priorities which are important from the point of view of development strategy in the developing countries might be neglected. There could, for example, be a tendency to exclude large sectors of industry on the grounds that these were already well established or that they could not be viable. As a result, industrial diversification in the developing countries might be impeded.

#### *Preferential quotas*

Between the two extremes of the one-way free-trade proposal and the proposal for the establishment of preferential tariffs on selected products in trade between pairs or small groups of countries, there lies a wide range of intermediate choices. It should be understood, however, that the main difference between the various alternative schemes lies in the extent to which the principle of preferential treatment for all exports of all developing countries is qualified in order to allay the fear of developed countries that the extension of unlimited preferences would damage their domestic economies. Thus, the choice of one proposal over another would depend very heavily on views regarding the potential effect of tariff preferences on the change in competitiveness of imports from developing countries.

The most pragmatic way of meeting this problem would be for countries to reach a general understanding that, if a situation of market disruption actually emerged or became imminent, some *ad hoc* measures might have to be taken to limit the volume of preferential imports. An alternative or additional measure which might also be considered as a means of dealing with the problem of market disruption, would be the establishment of an international Trade Adjustment Fund to provide compensation and assistance to industries adversely affected by preferential imports.

Acceptance of a provision for the possible limitation of imports of specific products on an *ad hoc* basis, however, might not be sufficient to allay fears of the consequences of a general extension of preferential treatment to all imports. It might then become necessary to introduce into the agreement establishing a preferential tariff system certain measures which would set maximum limits to the value of trade to be accorded preferential treat-

ment. If events proved that the fear of market disruption was generally unfounded, such measures would simply remain inoperative and could eventually be withdrawn.

These measures would necessarily take the form of preferential quotas. Under the quota systems, the value of trade receiving preferential treatment would be limited by the amount of the quota; trade in excess of the quota would be dutiable at the rates specified in the general tariff schedules.

Perhaps the most general system of preferential quotas that might be applied would be the establishment, for each developed country, of a limit on the aggregate value of all preferential imports to be accepted from the developing countries as a group. Such a quota would permit all the developing countries to enjoy preferential treatment on any products exported to any developed country so long as the aggregate quota of total preferential imports in each developed country was not exceeded.

The size of the quota to be granted by each developed country might be determined on an entirely voluntary basis, as in the case of contributions to certain international agencies providing assistance to developing countries. This method might be the least objectionable from the point of view of individual developed countries. But it would raise the question of equity among countries and, so long as the quotas to be established by some countries were uncertain or considered to be too small, other countries might be discouraged from setting generous quotas.

An alternative method would be to establish an over-all quota for all developed countries and to distribute it among countries on the basis of some agreed criterion as is done in the assessments for the budgets of international agencies. The value of total preferential imports into all developed countries might be determined by reference to the trade needs of the developing countries for accelerated economic development, account also being taken of the effect of other measures. While it is not suggested that such a figure could be precisely determined, an approximate figure might be sufficient for the purpose. The proportion which each developed country would contribute to the aggregate quota might be determined by reference to such economic aggregates as national income, total imports, total consumption of manufactures or imports of manufactures from developing countries. A distribution on the basis of any one of these aggregates, taken alone, would, however, be open to objections. If the distribution were in accordance with national income or consumption of manufactures alone, no account would be taken of the relative importance of trade in the economy of each country or of the share of its

trade with the developing countries. A distribution related to the size of total imports would take into account the importance of trade in each economy but not the importance of trade with developing countries. Again, if the distribution were proportional to the volume of imports of manufactures from developing countries, the developed countries which are currently importing a relatively large share would have to grant a relatively large preferential quota. While this share may be largely determined by economic factors, it may also be, to some extent, the consequence of a relatively liberal commercial policy towards imports from these countries. In view of such considerations, a compromise solution might have to be devised which, on the one hand, would recognize the existing pattern of trade and, on the other hand, would open up markets which have hitherto been relatively less important to developing countries. One possibility might be a formula in which the total consumption of manufactures of each country and its imports of manufactures from the developing countries were weighted together. Another might, for example, be a formula whereby the size of each country's quota was based on the present share of its import of manufactures from developing countries in total imports increased by a standard number of percentage points.<sup>62</sup>

An advantage of such a system of global quotas is that it would be relatively easy to administer. Objections to the system, however, may be raised on two scores. First, the less industrialized of the developing countries might fear that, since imports into developing countries would be accorded preferential treatment on a first-come basis and since the more industrialized countries would be better placed to expand their exports of manufactures quickly, they would not enjoy a fair share of the preferential import quotas. Individual countries, moreover, would have no certainty that, if they established new export industries to take advantage of the preferential system, the exports of these industries would in fact be assured of preferential treatment; in other words, they would not know in advance whether exports would be dutiable at the general or preferential rate. Secondly, the developed countries might consider that global quotas embracing all imports would still not offer them sufficient assurance that domestic markets for partic-

ular products would not be threatened with disruption.

If a measure were required to ensure that the preferential quotas granted by the developed countries were of benefit to all developing countries, some limitation might be placed on the aggregate value of exports from each developing country which would be accorded preferential treatment. This could take the form of a stipulation that total preferential imports from any one developing country should not exceed a certain proportion of the aggregate quota established by developed countries as a whole. Or, developing countries might be grouped into categories, say, by their stage of industrialization, and an aggregate quota assigned to each group. Another and more far-reaching possibility would be to accord a preferential quota to each developing country, some criterion for determining the size of the quota being devised on the basis of population, income or trade—or some combination thereof. Of course, if any such system of quotas were introduced, this would not necessarily ensure an equitable distribution of the actual benefit to be derived from preferential treatment, since some countries at least would be unable to take full advantage of their quotas; but it would accord similar opportunities to all these countries.

In order to counter the fear of market disruption, an alternative to the proposal to establish global quotas for each developing country subject to certain limited exceptions on particular commodities, would be to extend the system so as to include the establishment of quotas for specific classes of commodities exported from each country. This alone, however, might not be quite sufficient to allay fears in developed countries since each developed country would be less concerned about the total volume of preferential exports of a product from developing countries than about the volume of its own imports. This would lead logically to the setting of import quotas by each developed country for each class of product.<sup>63</sup> If, however, such a complex set of interrelated quotas were the necessary condition of a preferential arrangement, the negotiations might become too difficult at the international level and the commodity quota might be too complex to administer. The negotiation of such a set of quotas would clearly be similar to the negotiation of tariff reductions on a country-by-country and commodity-by-commodity basis; and attention has already been drawn to the limited results that have generally ensued from such a form of tariff negotiation. As regards quotas

<sup>62</sup> Many variations of the formula would be possible. In place of assigning a standard number of percentage points to each country, for example, a scale of points could be established, the number of points assigned to each country declining in inverse proportion to the share of imports from developing countries in its total imports.

<sup>63</sup> A possible criterion for the establishment of quotas was discussed in United Nations, *Economic Survey of Europe in 1960* (Sales No.: 61.II.E.1), chapter V, p. 50.

moreover, there would be the added complication that their negotiation would be superimposed upon the negotiation of an arrangement for preferential tariffs as such. Thus, the negotiation of such a preferential arrangement would certainly be lengthy and difficult and the results might prove to be disappointing. These objections would be avoided if individual developed countries were independently to negotiate quotas with individual developing countries for particular products. But, like the bilateral negotiation of preferential tariffs, this would largely empty the preferential system of its international

character and expose it to the introduction of discriminatory arrangements.

#### *Concluding note*

The foregoing discussion has made it quite apparent that a number of alternative preferential arrangements can be quite readily envisaged. Many variations can be introduced in regard to the countries according and receiving preferences, the products treated preferentially and the extent and duration of the preferential arrangement. By way of summary, the main alternative choices which might be considered, are presented schematically in table 7-15.

**Table 7-15. Principal Decisions Required for Establishment of a Preferential Tariff System and Some Main Alternative Choices**

<i>Decision with regard to:</i>		<i>Main alternative choices</i>		
Countries extending and receiving preferences	All developed economies to all other economies	All developed economies to all developing economies, intermediate countries being excluded from preferential area	Some developed economies to all or some developing economies (e.g., similar to EEC and associated members)	Individual developed economies to individual or groups of developing economies (e.g., similar to United Kingdom and Commonwealth countries)
Products receiving preferences	All manufactures, semi-manufactures and primary products	All manufactures and semi-manufactures	All manufactures and semi-manufactures with occasional exceptions made on an <i>ad hoc</i> basis to prevent market disruption	Specific manufactures and semi-manufactures selected on the basis of an agreed criterion (e.g., products other than those now deemed competitive or products of infant industries)
Extent of preferences:				
(a) Amount of trade accorded preferences	Unlimited amount	Amount limited by global quotas on total preferential imports of each developed country, the quotas depending, for example, on a weighted average of total consumption of manufactures and their imports from developing countries or on current share of total imports of manufactures and semi-manufactures derived from developing countries increased by standard number of percentage points	Amount limited by global quotas on total preferential imports of each developed country and by quotas on total preferential exports of developing countries with a single maximum quota being set for total exports from any one country, or with aggregate quotas being set for groups of countries classified by stage of industrialization or with a quota being set for each country on the basis of population, income, trade or some combination thereof	Amount limited by specific quotas on individual products exported by each developing country and imported by each developed country
(b) Margin of preference	Standard preferential schedule with zero tariffs	Standard preferential schedule with tariffs below general tariffs by fixed percentage, fixed number of percentage points or by an amount	Dual or multiple tariff schedules, different preferential tariffs being applied to imports from different countries, rate depending on stage of	

(Table continued on following page)

Table 7-15 (*continued*)

<i>Decision with regard to:</i>		<i>Main alternative choices</i>	
Extent of preferences ( <i>continued</i> ):		based on some automatic formula combining these two methods	development or stage of industrialization
(c) Duration of preferential system	Unlimited period	Fixed period of, say, ten years, but subject to renegotiation	Preferences subject to withdrawal from individual countries once their stage of development or per capita income has passed beyond a certain point, or from individual products once they cease to satisfy criterion for preference

### Structural adjustment in the developed countries

#### THE MAGNITUDE OF THE PROBLEM

Throughout the above discussion of measures which the developed countries might take to ease access to their markets for imports from developing countries, repeated reference has been made to the fear that, if such measures were introduced, the increased imports would adversely affect domestic industries. This fear, though sometimes warranted in specific circumstances, is frequently very much exaggerated. But it does constitute a principal source of opposition to the introduction of more liberal policies and it is therefore important to place the problem in perspective and to outline the range of domestic measures which are available to facilitate its solution.<sup>64</sup>

It is to be recalled at the outset that the volume of manufactures imported by the developed countries from the developing countries has recently amounted to about \$1.4 billion. By comparison, the developed countries have been importing manufactures from each other to the value of \$33.8 billion. Thus, even if imports from the developing countries were to be instantaneously doubled, they would still amount to less than one-twelfth of current trade among developed countries in manufactures. The significance of this comparison is obvious. Imports of manufactures from the developing countries are clearly a marginal element in the total trade of the developed countries. At least when aggregate flows of trade are considered, the problem of domestic adjustment to an expansion of imports from developing countries could only be minor by comparison with that which might be engendered by the enlargement of trade among the developed countries.

It is pertinent to observe also that, in the developed countries, the task of adjusting the domestic economy to a general expansion in foreign trade has not been regarded as an insurmountable obstacle to the reduction of general trade barriers on manufactures. These countries have, in recent years, introduced substantial reductions in trade restraints among themselves, particularly with the European Economic Community and the European Free Trade Area; and they have undertaken to consider further reductions in barriers to their trade at the forthcoming round of tariff negotiations.

It could almost be inferred from these past and proposed reductions in trade barriers that no major difficulties in the adjustment of the domestic economy to changes in commercial policies have been expected. Such concrete evidence as exists, in fact, indicates that the likely magnitude of the necessary adjustment is small. In the United States, for example, it has been estimated that an increase of one billion dollars in the imports of commodities of a type produced by seventy-two major protected industries and distributed in proportion to their output in 1953 would displace between 51,000 and 224,000 workers. These workers would constitute only about 0.1-0.3 per cent of total civilian employment in 1959.<sup>65</sup> This estimate has to be taken along with the fact that any increase in imports which is induced by a general reduction in trade barriers is likely to be matched by a parallel increase in exports. Thus, once sufficient time has been allowed for full adjustment to the change in commercial policies, the net effect of any reduction in trade barriers is not likely to consist in a displacement of

<sup>64</sup> See also United Nations, "Structural Employment Problems in the Industrialized Countries caused by Higher Imports of Manufactured Goods from the Developing Countries" (mimeographed document E/CONF.46/48).

<sup>65</sup> Walter S. Salant and Beatrice N. Vaccara, *Import Liberalization and Employment* (Washington, D.C., 1961), page 215.



labour but in its reallocation from import-competing to export industries.<sup>66</sup>

It thus appears that, even if the total imports of each developed country from all sources are considered, the scale of domestic adjustment required to accommodate sizable increases in these imports cannot be considered as large. Consequently, when considered as an aggregate, greater imports from the developing countries would hardly constitute anything more than a very marginal problem of adjustment for the developed countries. The concrete form in which the problem of adjustment presents itself, however, is at the level of specific industries. If imports from developing countries already accounted for a substantial share of the domestic market for particular products, there could be a sizable, though highly localized and transitional, problem of adjustment to a reduction in trade barriers. But the instances in which this might be true are probably very few and confined to highly specific products imported into one or two developed countries. Reference need only be made to table 7-7, presented earlier, to confirm this. Even in terms of total imported supplies of each class of manufactures, the products which constitute the principal manufactures exported by the developing countries generally do not account for a major share. And the same necessarily holds, *a fortiori*, for their share of total domestic supplies. This is well illustrated for the United States by the following data:

Commodity	Ratio of imports of selected manu- factures from developing coun- tries into the United States to domestic supply, 1960 (Percentage)
Textile mill products .....	1.4
Veneer, plywood board .....	1.4
Leather and leather products .....	0.7
Chemicals .....	0.4
Footwear .....	0.1
Electrical machinery, equipment and supplies .....	a
Machinery other than electrical .....	a

Source: United States Department of Commerce, *Commodity Exports and Imports as Related to Output, 1960 and 1961* (Washington, D.C., 1963); Organisation for European Economic Co-operation, *Foreign Trade Statistical Bulletins*, Series C, "Trade by Commodities" (Paris), January-December 1960. Domestic supply refers to the sum of production and imports less exports.

<sup>a</sup> Negligible.

<sup>66</sup> In this context, it is of incidental interest that protected import-competing industries generally pay lower wages than unprotected industries. In the United States, for example, hourly earnings in seventy-two protected industries in 1953 averaged \$1.45 while in forty-four unprotected industries the average was \$1.78. See Beatrice N. Vaccara, *Employment and Output in Protected Manufacturing Industries* (Washington, D.C., 1960), page 62.

Of course, it would not be reasonable to deny that localized problems of adjustment might have to be confronted as a consequence of the reduction of barriers to imports of manufactures from the developing countries. But it can be readily inferred from the evidence mentioned above, that such problems would certainly be marginal in comparison with the structural adjustments necessitated both by technical progress and by the expansion of trade among developed countries. It would therefore appear that solutions to such problems could be quite readily found within the framework of general policies for easing the process of structural adaptation.

#### MEASURES FOR STRUCTURAL READJUSTMENT IN DEVELOPED COUNTRIES

The need for adaptation to economic change is not a new phenomenon, and governments of developed countries have not as a rule been indifferent to problems arising from such change. In recent years, however, the response of public authorities to the economic and social problems resulting from structural change has generally taken a more active form than before. Just as, in earlier years, the prevention of widespread unemployment became a cornerstone of public policy in all countries, the problem of economic dislocation attendant upon structural change has today come to be recognized as a problem demanding corrective public action. Besides taking a more purposeful attitude towards the problem of structural adjustment in general, several governments have significantly modified their approach to maladjustments originating in the foreign trade sector. While the alternative to a policy of increased protection for domestic industries against an upsurge of imports used to be mostly seen as economic dislocation unaccompanied by corrective public action, there has recently been a greater readiness to take the view that difficulties resulting from a decline in the competitive position of domestic manufacturers should be met through readjustment in the affected industries rather than through import restrictions.

A number of developed countries have adopted measures to ease the adjustment of industries and their employees to the possible difficulties which might be created by changes in commercial policies. Legislation providing assistance has usually been designed to serve several purposes. One aim has sometimes been to provide an element of temporary compensation to affected industries for losses in income and employment. Public assistance has sometimes also been designed to facilitate the reorganization and modernization of an industry in order to raise its efficiency and, perhaps simultaneously, to bring about an orderly contraction in its total size.

A further aim has commonly been to improve the mobility of resources in order to facilitate the absorption of displaced workers in expanding industries.

In western Europe, there are some important instances of multi-national action to lessen the problems arising from trade liberalization. Thus, with the formation of Benelux, the European Economic Community, and the European Coal and Steel Community, adjustment programmes were introduced to ease industrial adaptation to the process of economic integration. In Benelux, a joint readaptation fund was set up in 1953 to provide temporary financial help to enterprises experiencing difficulties as a result of the implementation of the Benelux treaty. Assistance is available in the form of special readaptation credits at low interest. The fund also finances studies and research with a view to increasing productivity. The Social Fund of the European Economic Community was established under the Treaty of Rome. Its scope was defined in a regulation adopted by the member Governments in 1960. The purpose of the fund is to ensure employment and guarantee the income of wage earners against the risks of the integration of national economies, and also to promote action against structural unemployment in general. Assistance is given for both retraining and resettlement purposes.<sup>67</sup>

The adjustment plan adopted by the High Authority of the European Coal and Steel Community for the high-cost Belgian coal mines provided for closing down marginal pits and renovating others, reducing the capacity of the industry by over 7 million tons, or more than a fourth of actual production in 1958. In order to enable the mines to clear the coal already accumulated at the pit-heads, a temporary subsidy was given to the operators.<sup>68</sup>

One example of a national programme for adjustment assistance is that contained in the Trade Expansion Act of the United States, adopted in 1962. This provides for federal assistance to firms and workers suffering losses caused by import competition. The adjustment assistance for firms is of three types. First, provision is made for technical assistance to an affected firm. Such assistance includes information, market and other economic re-

search, managerial advice and counselling, training, and assistance in research and development. Second, provision is made for direct loans or guarantees of loans to provide financial assistance which otherwise might not be available. Third, provision is made for tax assistance through a special carryback of operating losses. As regards workers, the Act also provides for three types of assistance. First, it provides for readjustment allowances in the form of compensation for partial or complete unemployment. Second, it provides for retraining of workers so that they can shift into other types of employment. Third, it provides for relocation allowances to assist a family in moving from an area where employment may be lacking to an area where employment is available. These facilities are in addition to those which may already be available to firms, workers and communities under other legislation.

Another important instance of national legislation to provide adjustment assistance, though less comprehensive in coverage than the United States programme is the Cotton Industry Act passed in the United Kingdom in 1959. The cotton textile industry in the United Kingdom has long been a declining industry, partly because of the gradual loss of export markets but also because of increasing imports in recent years. Excess capacity remained a persistent feature of the industry for many years. The Act of 1959 empowered the Government to offer compensation to the industry if the latter agreed to scrap a sufficient amount of its old machinery and if it also undertook to compensate workers who might be displaced. Since the introduction of the Act, about 50 per cent of the spindles in the industry, 36 per cent of the doubling spindles and 40 per cent of the looms have been scrapped.

In addition to such measures intended specifically to assist particular industries adversely affected by changes in commercial policies, other measures have been adopted by some countries to alleviate structural unemployment in particular geographical areas within the economy. However, being more general, they may also contribute to the adaptation of industries to import competition. Their main economic purpose has usually been to improve the mobility of resources through measures to attract new industries into the depressed areas, to retrain workers or to ease their transfer to other areas.

In the United States, an Area Redevelopment Act has been enacted to deal with the problem of depressed areas. The Act, adopted in 1961, provides loans to commercial and industrial enterprises as well as loans and grants for community facilities and urban renewal, designed to increase employment in those localities which are designated as redevelopment areas. Comparable legislation in the United

<sup>67</sup> European Economic Community Commission, *The First Stage of the Common Market* (Brussels, 1962).

<sup>68</sup> The subsidy had to be continued, however, beyond the period originally contemplated, because the industry could not withstand the competition of imported coal from the other EEC countries. *Bulletin from the European Community* (Washington, D.C.), June-July 1962, page 12; European Coal and Steel Community High Authority, *General Report on the Activities of the Community*, various issues (Brussels).

Kingdom was contained in the Distribution of Industry Act. Under this Act, as amended in 1959, the Government may designate areas as in need of public assistance. The criterion is the existence, or imminence, of unemployment, which appears likely to persist. Once an area is qualified for governmental assistance, the Board of Trade is authorized to purchase land and establish plants in order to attract new factories to the area. Alternatively, the Board can make grants and loans to firms entering the area. Similar policies have been pursued by the Government of Italy to foster the development of

southern Italy. The emphasis has been on making capital more easily and more cheaply available in order to encourage firms to establish factories in the depressed area.<sup>69</sup> In addition, reduced railway rates and exemption from import duties have been granted in the case of construction materials and equipment to be used in the South in order to lower the costs of new investment.

<sup>69</sup> Small and medium-sized firms may obtain loans at 3 per cent, and larger corporations at 4 to 5 per cent. The loans may run for terms up to fifteen years, with amortization beginning only after the fifth year.

## Conclusion

From a long-run viewpoint, the development of an export trade in manufactures must increasingly become the main dynamic element in expanding the export earnings of the developing countries. While such trade is still small, during recent years it has exhibited a substantially higher rate of growth than that recorded by exports of primary commodities. Exports of manufactures, however, have been dominated by a few developing countries exporting relatively few products; and in trade with developed countries, moreover, these exports have been concentrated in a few markets. It is thus apparent that if the past performance of the developing countries with regard to their rate of growth in exports is to be bettered in the future, these countries need to pay greater attention, not only to the establishment and expansion of export industries, but also to the diversification of both their export products and their export markets.

Such efforts to increase and diversify exports, however, can hardly meet with success if these countries do not enjoy access to the markets of developed countries on favourable terms. At present, the sale of manufactures in the markets of developed countries is hampered by a number of obstacles consisting of both non-tariff and tariff barriers which have been erected by commercial policies.

While the general trend in commercial policies of developed countries during the last decade or so has been towards the elimination of quantitative import restrictions, a number of countries—mainly in western Europe—have persistently maintained certain “hard-core” restrictions. Such restrictions bear heavily on important manufactures exported by developing countries and are in some cases, moreover, applied in a discriminatory manner against these countries. At the same time, in the field of cotton textiles, the agreements recently negotiated bilaterally and under the international cotton textiles

arrangements have introduced a new form of restriction in the shape of negotiated limitations on exports. In the face of such measures, the developing countries have fairly claimed that the commercial policies of developed countries are both discriminatory in effect and subject to change by unilateral action. The GATT Programme of Action has recommended steps for the elimination of quantitative restrictions, but it has not received the unqualified support of developed countries.

The difficulties confronting developing countries that arise out of non-tariff obstacles to trade are reinforced by the existence of tariff barriers. While the general tariffs of developed countries apply equally to imports from all sources, it is a fact that some of the highest rates of duty in their tariff schedules apply to light manufactures of particular importance in the export trade of developing countries. The post-war trend in policies of developed countries has been towards the reduction of these barriers, and a series of negotiations have been conducted to this end. However, the rules by which past negotiations have been conducted combined with the relatively weak bargaining position of the developing countries have together tended to limit the reductions on products of particular interest to these countries. For such reasons, the proposal to negotiate linear reductions in tariffs at the forthcoming round of tariff negotiations offers greater assurance that the interests of the developing countries will not be neglected. As a way of increasing the benefit that might accrue to the developing countries from the negotiation of general tariff reductions, a possibility would be to supplement the linear reductions with selective reductions on products of particular interest to these countries. Conceived as a general measure to assist all developing countries, however, this form of supplementary action presents major difficulties primarily because it would have to embrace a relatively wide range of products.

While reductions in general tariffs would obviously be valuable, serious doubts have been expressed as to whether these would be sufficient as an appropriate international measure for encouraging the expansion of exports of manufactures from developing countries. The competitive position of developing countries in international trade is clearly weak and general tariff reductions would obviously do nothing to strengthen their position vis-à-vis exporters in developed countries. It has therefore been proposed that the developed countries should accord preferential treatment to imports of manufactures from the developing countries. While such a measure would encounter objections on the score that it conflicted with the most favoured nation principle, it can be supported on the grounds that it would constitute only an extension of a principle already recognized, namely, the granting of non-reciprocal tariff concessions to the exports of developing countries as a means of promoting their industrialization.

Many different preferential arrangements are possible, ranging from a one-way free-trade system for all manufactures exported by developing countries to an arrangement providing preferential treatment for specific products from specific countries. The criteria for eligibility would thus be a principal element determining the broad character of a pre-

ferential system. Selection of the criteria for eligibility, however, could not be dissociated from consideration of the extent and duration of the preferences to be accorded. A system of preferential tariffs which was broad in its coverage as regards both countries and products might be rendered more acceptable if it were accompanied by certain limitations on the volume and duration of the trade to be accorded preferential treatment. Besides such general points, there are many other issues which would have to be resolved before a preferential system could be introduced. These, however, are subsidiary to the broad questions of principle.

Action by the developed countries to lessen the various obstacles to exports of manufactures from the developing countries could possibly give rise to localized problems of adjustment within their domestic economies. Fear of the emergence of such problems has been an important source of opposition to the adoption of more liberal policies. There is, however, strong evidence to suggest that any problems of adjustment created by expanding exports from the developing countries would be slight by comparison with those which are continuously necessitated by technical progress and the growth of trade among developed countries. Solutions to these problems could be readily found within the framework of general policies to ease structural adjustments.

## Appendix

Table 7A-1. Selected Developed Market Economies: *Ad Valorem* Tariffs on Imports of Manufactures, 1963<sup>a</sup>  
(Percentage)

SITC group	North America			Western Europe											Japan General
	United States	Canada		Benelux		France		Federal Republic of Germany		Italy		United Kingdom			
	General	General	Prefer- ential	General	Prefer- ential	General	Prefer- ential	General	Prefer- ential	General	Prefer- ential	General	Common- wealth prefer- ential	EFTA prefer- ential	
Organic chemicals .....	40.5	9.7	3.0	5.6	1.3	17.0	8.8	10.9	6.1	16.5	9.0	27.4	6.1	18.2	17.1
Inorganic chemicals and radioactive materials .....	14.7	10.7	2.4	3.8	0.8	12.7	7.6	7.3	4.5	13.2	7.6	13.9	—	8.3	13.9
Mineral tar and crude chemicals from coal, petroleum and natural gas .....	—	8.2	2.5	5.8	1.4	4.0	2.2	0.8	—	6.8	4.4	10.1	4.1	7.7	7.1
Essential oils, perfume and flavour materials .....	22.9	3.8	—	7.7	3.8	8.4	3.8	7.2	4.8	10.1	5.1	14.1	3.4	10.5	12.9
Plastic materials, regenerated cellu- lose, and miscellaneous chemical materials and products .....	22.1	9.4	5.9	8.6	3.3	16.5	8.8	12.1	7.6	17.4	9.7	12.9	1.0	8.1	14.3
Fertilizers, manufactured .....	—	3.8	—	1.3	—	4.8	1.6	6.4	5.2	6.3	3.6	15.9	—	9.6	—
Leather .....	10.4	15.6	4.3	6.8	3.4	8.9	4.2	5.4	2.7	11.7	6.7	13.3	—	8.0	19.0
Fur skins, tanned or dressed (includ- ing dyed) .....	18.4	15.0	9.0	5.3	3.0	4.8	1.3	6.6	4.3	13.3	8.1	20.0	—	12.0	20.0
Materials of rubber .....	10.0	16.6	9.6	11.0	5.7	12.5	5.6	12.4	9.0	14.0	7.5	14.8	5.6	8.9	8.0
Veneers, plywood board, etc. ....	13.9	13.0	7.7	8.0	3.9	10.5	5.2	8.0	6.2	11.0	6.4	14.5	—	8.7	16.0
Cork manufactures .....	19.7	9.0	—	11.8	5.0	21.2	11.5	10.6	4.9	25.8	15.0	11.7	—	7.0	15.0
Textile yarn and thread .....	21.7	13.6	6.9	9.4	4.1	10.6	5.6	7.7	4.6	12.7	7.6	18.6	10.4	16.8	20.8
Cotton fabric, woven .....	24.6	17.0	7.5	15.2	8.0	17.2	9.0	13.6	7.5	15.7	7.8	22.7	16.6	14.1	10.0
Textile fabrics, woven, other than cotton fabrics .....	34.7	18.4	10.0	16.7	8.5	17.5	10.2	14.9	8.5	17.4	9.3	23.2	16.8	14.3	25.0
Special textile fabrics and related products .....	23.9	19.8	12.1	12.8	6.5	14.6	7.4	11.7	6.6	14.1	7.5	24.4	15.7	14.6	18.0
Miscellaneous made-up textile articles	30.4	21.1	14.2	18.0	9.7	19.5	8.8	15.4	9.3	16.8	8.7	25.6	14.6	15.4	19.0
Floor coverings, tapestries, etc. ....	21.2	22.1	17.7	19.0	10.8	23.6	11.0	15.0	8.8	19.4	9.7	31.7	11.4	18.9	25.0
Pottery .....	33.5	22.0	10.0	20.0	11.2	19.8	8.2	15.4	8.3	22.1	12.1	24.8	—	14.9	15.0
Pearls and precious and semi-precious stones .....	13.8	4.6	1.5	1.0	—	7.1	5.3	1.0	—	2.8	1.4	4.0	—	2.4	8.3
Iron and steel .....	12.0	13.8	—	6.5	1.8	9.8	3.9	7.7	3.4	12.7	5.0	13.6	—	8.2	13.8
Power generating machinery, other than electric .....	12.9	10.2	1.1	8.7	3.9	13.3	6.3	6.8	2.5	16.9	9.4	23.9	6.3	14.3	19.4

Table 7A-1 (continued)

SITC group	North America			Western Europe											Japan General
	United States	Canada		Benelux		France		Federal Republic of Germany		Italy		United Kingdom			
	General	General	Prefer- ential	General	Prefer- ential	General	Prefer- ential	General	Prefer- ential	General	Prefer- ential	General	Common- wealth prefer- ential	EFTA prefer- ential	
Agricultural machinery and imple- ments .....	2.1	6.0	2.0	7.0	3.2	11.6	6.0	6.6	2.6	12.3	8.5	15.0	—	9.9	17.5
Office machines .....	13.0	15.9	5.3	9.3	4.2	14.0	7.3	8.8	3.8	15.7	9.0	16.1	—	9.6	13.9
Textile and leather machinery, ma- chines for special industries and miscellaneous machinery and ap- pliances other than electric.....	13.6	10.9	3.7	8.8	3.7	13.2	6.6	7.4	2.9	16.5	9.6	17.1	0.2	10.3	15.9
Electric machinery, apparatus and appliances .....	20.9	16.5	6.8	11.6	5.4	16.1	7.9	9.9	4.6	20.6	11.8	21.6	1.5	13.0	18.3
Furniture .....	16.7	25.2	17.7	14.9	7.7	17.3	8.8	12.0	6.6	17.2	9.3	20.6	4.1	12.4	25.6
Travel goods, handbags, etc.....	20.0	23.8	11.3	18.8	10.0	18.1	8.6	14.9	8.0	19.3	10.2	18.3	—	11.0	25.0
Clothing, except fur clothing.....	32.4	21.7	14.3	18.8	10.2	19.4	9.0	14.1	7.9	17.0	8.5	25.9	15.6	15.6	23.9
Fur clothing (excluding headgear) and other articles made of fur skins, etc. ....	22.3	22.5	15.0	18.6	9.3	21.8	11.2	15.5	8.5	24.9	14.0	25.0	—	15.0	40.0
Footwear .....	13.7	23.4	13.8	18.7	10.6	19.1	8.6	14.4	8.2	18.3	9.4	24.5	7.0	14.7	26.8
Scientific, medical, optical, measur- ing and controlling instruments and apparatus .....	25.6	9.6	3.2	12.6	5.9	17.1	8.8	9.5	4.4	16.9	9.2	33.0	0.6	19.8	23.3
Miscellaneous manufactured articles, n.e.s. <sup>b</sup> .....	23.5	18.8	10.8	13.2	6.8	16.5	8.2	11.4	6.8	15.3	7.9	19.5	2.7	12.1	18.6
Jewellery and goldsmiths' and silver- smiths' wares .....	33.3	20.8	11.9	8.3	4.4	11.0	5.4	8.1	4.3	8.5	4.6	19.1	—	11.3	32.5

Source: Bureau of General Economic Research and Policies of the United Nations Secretariat, based on data from national sources.

<sup>a</sup> Rates are the simple arithmetic means of the tariffs on all products within

each SITC group. Data for Japan, the United Kingdom and the United States refer to 1962.

<sup>b</sup> SITC groups 893-896 and 899.

Table 7A-2. List of Semi-manufactures and Manufactures of Importance in the Export Trade of Developing Countries Examined by GATT, Committee III

Asbestos products	Linoleum
Bicycles	Machine tools
Bromine and bromine compounds	Mercury
Casein	Metals, wrought and worked and manufactures of metals
Chlorine and derivatives (plastics, solvents, etc.)	Nitrogen compound
Coir products	Phosphates
Cotton textiles	Plywood
Cutlery	Polyethylene and polypropylene (from natural gas)
Electric motors	Pulp, paper and paperboards
Electric fans	Quebracho and other tanning materials
Essential oils	Radio receivers
Ferro-chrome and ferro-manganese	Rubber manufactures (e.g., shoes, tyres and tubes)
Flax yarn and fabrics	Rubber, articles of sponge rubber and foam rubber
Glass and glassware	Rugs and carpets, commercial quality handicraft
Hardboard, chipboard	Sewing machines
Hard fibre manufactures	Silk manufactures
Hides and skins, tanned	Soap
Internal combustion engines (under 50 horsepower)	Sporting goods
Iron, pig	Steel furniture
Iron and steel, semi-processed goods	Sulphur
Jute manufactures	Sulphuric acid
Leather	Timber, processed
Leather footwear	Wooden furniture
Leather goods	Woollen and worsted yarn and textiles

Source: General Agreement on Tariffs and Trade, "Comprehensive List of Products of Importance in the Export Trade of Less Developed Countries", Committee III/105

(25 March 1963); also, document L/1989 (10 April 1963) and "Report of Committee III on the Meeting of 21 to 31 October 1963", document L/2080 (7 November 1963).





Section IV

**FINANCE IN INTERNATIONAL TRADE**



## Chapter 8

### FINANCING FOR AN EXPANSION OF INTERNATIONAL TRADE

During the past decade, external capital and official donations have played an increasingly important role in the economies of the developing countries. The unfavourable trend in the terms of trade since the mid-nineteen fifties and the sluggish growth of exports of many primary products have slowed down the growth of foreign exchange receipts and of incomes in the export sector at a time when the world at large and the developing countries in particular have redoubled their efforts to tackle the problem of economic backwardness. In these circumstances, there has emerged a growing need for external funds both as a supplement to export receipts and external purchasing power and as an addition to the domestic resources available for capital formation. To meet this need, Governments in the developed countries, both with market economies and centrally planned economies, have expanded the flow of official capital and donations to the developing countries and there has also been a substantial increase in private investment and lending. Thus, from 1951-1955 to 1960-1962, the net annual flow of long-term official and private funds from the developed market economies and multilateral agencies increased from \$2.6 billion to \$6.0 billion. The centrally planned economies, too, have raised their credit commitments to the developing countries—the total amount rising since 1954, when the first credits were granted, to an average of some \$750 million a year in 1960-1962.

While the elaboration of measures for the expansion of exports is vital to the long-term economic progress of the developing countries, attention should not be diverted from the continuing need of the developing countries for foreign capital. When new trade measures become effective, they will increase foreign exchange receipts, but they will not in themselves solve the problem of scarcity of domestic saving in low-income countries and hence of the resources available for capital formation. For that reason, many developing countries will continue to depend in some degree on external capital to accelerate their economic development. Moreover, in the short run the need for foreign capital may actually be enhanced by measures to expand export markets. In order to take advantage of new export opportunities, the developing countries will be obliged to make substantial investments in the establishment

of new export industries and in the expansion and modernization of existing productive capacity in the traditional export sector. Unless additional foreign capital, both public and private, becomes available, the necessary reallocation of resources will inevitably slow down the execution of other essential investment projects.

Furthermore, trade measures aimed at improving the long-term prospects for the exports of the developing countries may involve in the short run a disruption of established trade patterns. Such disruptions may entail a temporary loss of export receipts for some countries, which may need financial assistance in order to maintain imports and proceed with their development programmes. In these circumstances, facilities for the provision of medium-term finance may have to be expanded.

Finally—and this is perhaps the most pressing issue—long-term trade measures will require time to become effective. Losses of external purchasing power resulting from the deterioration of terms of trade since the beginning of the nineteen fifties have, in varying degree, offset the benefits which the developing countries have derived from the growing inflow of long-term funds. Many countries have felt that machinery should be established to compensate the developing countries for any further losses of external purchasing power which would arise if the unfavourable trend in their terms of trade were to persist. The problem of long-term compensatory financing is examined in chapter 9. In the present context it must be emphasized that any further erosion of the external purchasing power of export receipts of the developing countries by unfavourable price developments would seriously jeopardize the attainment of the target of economic growth established for the United Nations Development Decade.

While the total volume of external capital supplied to the developing countries is one of the important factors which affect their economic progress, the quality and cost of external assistance and private capital, together with the efforts and policies of the recipient countries themselves, will ultimately determine the long-term contribution of a given volume of external funds to economic growth. To be most effective, external assistance and private capital need to

be provided in a form most suited to the recipients' needs and on terms consistent with their financial capacity and ability to transfer debt service payments abroad. The flow of capital and official donations should, moreover, have continuity. One of the major obstacles encountered by the developing countries in the implementation of long-range development policies has been the instability of export receipts. The flow to individual developing countries of both official funds and private capital has likewise fluctuated widely from year to year. Measures to stabilize exports will facilitate the task of development planning. Such trade measures need to be paralleled by policies which will enable recipients of external capital to plan their development with a reasonable degree of assurance that an adequate volume of external finance on suitable terms will become available for the execution of essential investment projects.

The expanding flow of loan capital to the developing countries during recent years has more than doubled their external public debt since the mid-nineteen fifties and has resulted in a more than four-fold increase in interest payments. Moreover, the increase in external indebtedness and the relatively short repayment periods of a substantial proportion of new debt have led to a rapid rise in amortization payments in recent years. The servicing of the external debt has thus become an increasingly heavy burden on the balance of payments. Unless a growing proportion of new funds is supplied on favourable terms with respect to interest rates and repayment periods, a number of developing countries may soon be unable to take advantage of the external financial assistance offered to them.

In order to make external assistance more effective, it is necessary not only to improve the financial terms attaching to it but also the conditions on which assistance is given. Since the bulk of assistance continues to be provided under bilateral aid programmes, despite the growing proportion being channelled through multilateral agencies in recent years, it is important that the aid policies and operations of the donor countries be co-ordinated. There is, in particular, a need for a concerted effort to liberalize and co-ordinate policies with respect to restrictions on the use of aid contributions.

No less important than the co-ordination of the aid policies of individual donor countries is the co-ordination of aid with the trade needs of the developing countries. Aid can provide no more than a

supplement to the external resources of the developing countries, albeit an important one. To make this supplement more effective, it is essential that financial aid and technical assistance be co-ordinated with measures to enhance the ability of the developing countries to earn more foreign exchange from their own exports. This requires action both in the field of trade and aid policy. While private capital has made a significant contribution to the development of traditional exports, official aid programmes may also need to give greater emphasis to export-oriented projects and export promotion than in the past. Furthermore, the developing countries also require assistance in establishing and operating adequate export credit facilities. At the same time, it is necessary that the donor countries' trade policies should enable the recipients of aid to find outlets for their new export products.

Economic aid commitments by the centrally planned economies have been concentrated in a limited number of developing countries where their economic impact has been significant. Virtually all aid has been given on a bilateral basis and chiefly in the form of credits on liberal terms. The aid policy of the centrally planned economies has several distinguishing features: financial aid is closely integrated with technical assistance at all stages of the preparation and execution of projects; aid agreements usually provide for interest and amortization payment in the borrower's traditional export products, or in some cases, in the products of the industry established with the help of the credits granted; and aid is predominantly directed towards the development of industry, notably for the manufacture of producer goods.

Both in the developed market economies and the centrally planned economies, the phase of rapid expansion of aid programmes, which began in the late nineteen fifties, appears to have come to a halt. Since 1961 bilateral aid commitments have barely kept pace with economic growth in the donor countries; in some cases such commitments have even declined. It is to be hoped, in the interest of accelerating the rate of growth of developing countries, that the present phase is no more than a period of stock-taking when policies and achievements are reviewed and the ground prepared for renewed efforts towards the attainment of the United Nations target for an expanding flow of international aid.

These and other related points are discussed at some length in the following sections.

## Trends in the flow of long-term external finance to the developing countries

### THE TOTAL FLOW OF LONG-TERM FUNDS

The net flow of long-term capital<sup>1</sup> and official donations from the developed private enterprise countries and multilateral lending agencies to the developing countries<sup>2</sup> averaged \$6.0 billion a year in 1960-1962. As table 8-1 shows, the average annual flow has more than doubled since 1951-1955 and has exceeded the average for 1956-1959 by \$1.3 billion. The composition of the net flow of capital and donations has changed, especially since the latter part of the nineteen fifties. Private capital has played a diminishing role in the transfer of resources to the developing countries after the mid-nineteen fifties when private lending and investment declined. There has also been a relative shift in official contributions from donations to loans, and at the same time the proportion of funds supplied through multilateral agencies has risen. In 1960-1962, one-fifth of the net bilateral flow consisted of private capital including reinvested earnings,<sup>3</sup> while net official loan disbursements accounted for roughly one-third and official donations for over two-fifths of the total. Net disbursements by multilateral agencies amounted to 6 per cent of the over-all total.

<sup>1</sup> Throughout this chapter, the phrase "long-term" refers to loans and investments without maturity or maturing after one year. The term "net flow" refers to the balance of all payments and all receipts of long-term official and private capital and official donations. This definition, therefore, covers not only all flows of long-term funds to the developing countries, but also all identifiable flows of long-term funds from the developing countries. It should also be noted that the data presented in this chapter, unless otherwise stated, differ from those presented in publications of the Organisation for Economic Co-operation and Development (OECD) owing chiefly to differences in the country coverage for recipient developing countries, and the inclusion in the data of OECD of certain estimates of reinvested earnings and of some guaranteed private export credits, which are not fully covered in the totals shown in the present chapter. Furthermore, certain discrepancies also arise from the fact that the present data on private capital flows are net of all identifiable transfers of long-term funds by residents of developing countries to developed countries; such reverse flows were not generally allowed for in tables presented in OECD publications.

<sup>2</sup> Unless otherwise stated, the term "developing countries" in this report refers in principle to the following country groups: African countries other than South Africa, countries in West Asia and the Far East other than Japan and the centrally planned countries in the region, the Latin American republics other than Cuba, the dependencies and independent countries in the Caribbean region and the dependencies and trust territories in Oceania. It does not cover the less developed market economies in the European region.

<sup>3</sup> Reinvested earnings in 1960-1962 are estimated at \$500 million per year; although they do not give rise to an inflow of foreign exchange, their transfer to the parent company in the event that they had not been reinvested would have entailed an outflow of foreign exchange.

Table 8-1. Net Flow of Long-term Capital<sup>a</sup> and Official Donations from Developed Market Economies and Multilateral Agencies to Developing Countries,<sup>b</sup> Annual Averages for 1951-1955, 1956-1959 and 1960-1962

(Billions of dollars)

Item	1951-1955	1956-1959	1960-1962
Total .....	-2.6	-4.7	-6.0
Bilateral flow			
Total <sup>c</sup> .....	-2.5	-4.5	-5.7
Private capital <sup>d</sup> .....	-0.7	-1.4	-1.2
Recorded reinvested earnings of affiliates of foreign enterprises <sup>e</sup> .....	(-0.4)	(-0.5)	(-0.5)
Official donations .....	-1.1	-2.1	-2.6
Official capital <sup>f</sup> .....	-0.8	-1.0	-1.9
Total official .....	-1.9	-3.1	-4.5
of which: United States agricultural surplus sales .....	—	-0.6	-0.8
Flow from multilateral lending agencies .....	-0.1	-0.2	-0.3

Source: Bureau of General Economic Research and Policies of the United Nations Secretariat, based on data from International Monetary Fund, *Balance of Payments Yearbook* (Washington, D.C.); from a special questionnaire issued jointly by the United Nations Secretariat and the International Monetary Fund; and from Organisation for Economic Co-operation and Development, *The Flow of Financial Resources to Less Developed Countries* (Paris).

<sup>a</sup> Loans and investment without maturity, or maturing after one year. Minus sign indicates net outflow of funds.

<sup>b</sup> Developing countries of Africa, West Asia, Far East (excluding Mainland China, Mongolia, North Korea and North Viet-Nam) and Latin America. Totals differ from those shown in table 6-1 of United Nations, *World Economic Survey, 1962: I. The Developing Countries in World Trade* (Sales No.: 63.II.C.1), chapter 6, owing to the exclusion of flows to the industrially less developed private enterprise countries in Europe and to South Africa, which were included in the earlier document.

<sup>c</sup> Excluding estimates for French private investment in franc area countries, which have averaged \$300 to \$350 million annually in the years 1956-1961; no estimates are available for 1951-1955.

<sup>d</sup> Excluding loans and credits extended by private banking institutions.

<sup>e</sup> Based primarily on data from United Kingdom and United States; most other capital exporting countries do not report reinvested earnings separately in their balance of payments statistics and appear to include only a small proportion of such transactions in their data on private capital flows.

<sup>f</sup> Including loans and credits extended by private banks; including the unutilized portion of local currency balances derived from sales of United States agricultural surpluses.

The expansion in the flow of official resources to the developing countries reflects increases in the official contributions of major donor countries, such as the United States, France and the United King-

dom, the more recent establishment of aid programmes by the Federal Republic of Germany and Japan, and the rise in disbursements by multilateral lending agencies. The United States has nonetheless remained the largest single source of official loans and donations and its share in the total flow has in fact increased slightly during the period under review, as table 8-2 shows. The rise in aid contributions of the Federal Republic of Germany, Japan and some of the smaller donor countries has been more rapid than the increase in disbursements by the United States. However, the expansion of the flow from the United Kingdom and, especially, from France, which had been the two major western European donor countries in the early nineteen fifties, has not kept pace with that of the other countries and the combined share of donors other than the United States has therefore not increased since 1950-1955.

About half of gross official disbursements in 1960-1962 consisted of official donations and around one-sixth was contributed by transfers of United States agricultural surpluses for sale against local currencies, the proceeds of which were utilized for development financing. From 1960 to 1962, the share of these two types of transactions declined, while that of official loans increased sharply, as table 8-3 shows. This shift towards loans resulted chiefly from a change in the United States Government's approach to foreign aid, notably an increase in emphasis of the aid programme on development financing as against defence-related supporting assistance.

**Table 8-2. Net Official Flow from North America, Western Europe and Japan and from Multilateral Agencies to Developing Countries, by Source, 1950-1955, 1956-1959 and 1960-1962**

(Percentage)				
Country	1950-1955 <sup>a</sup>	1956-1959	1960-1962	
United States .....	54	55	57	
France .....	(24)	20	16	
United Kingdom .....	9	6	7	
Germany (Federal Republic of) .....	2	4	6	
Italy .....	2	2	1	
Japan .....	1	4	3	
Other countries .....	(2)	3	4	
Multilateral agencies .....	5	6	6	
TOTAL	100	100	100	

Source: Bureau of General Economic Research and Policies of the United Nations Secretariat, based on data from Organisation for Economic Co-operation and Development *The Flow of Financial Resources to Less Developed Countries*, 1961 and 1963 *Review of Development Assistance Efforts and Policies of the Members of the Development Assistance Committee* (Paris).

<sup>a</sup> Estimate based on incomplete data.

**Table 8-3. Developed Countries:<sup>a</sup> Gross Disbursements of Official Funds to Developing Countries,<sup>b</sup> by Type, 1960-1962**

(Percentage)

Item	1960	1961	1962
Total, bilateral disbursements ....	100	100	100
Donations <sup>c</sup> .....	53	48	46
Transfers of surplus commodities <sup>d</sup> .....	19	15	15
Total loans (gross) .....	28	37	39
Loans repayable in local currencies .....	5	4	8
Loans repayable in lenders' currencies, total .....	22	33	31
For more than 20 years .....	5	9	10
For more than 10 to 20 years .....	9	13	13
For more than 5 to 10 years .....	6	9	6
For more than 1 to 5 years .....	2	1	1

Source: Organisation for Economic Co-operation and Development, *The Flow of Financial Resources to Less Developed Countries*, 1962 and 1963.

<sup>a</sup> Developed countries of western Europe, North America and Japan.

<sup>b</sup> Developing countries as defined in the source of this table include Greece, Spain, Turkey and Yugoslavia, which are not covered by the data in table 8-1.

<sup>c</sup> Excluding donations made out of local currency proceeds from sales of surplus commodities. See foot-note *d*.

<sup>d</sup> Including donations made out of local currency proceeds from sales of surplus commodities.

The increase in the relative importance of loans was accompanied by an easing of financial terms. As table 8-3 indicates, the proportion of loans repayable in local currencies and of other loans with repayment periods of over twenty years increased from 10 per cent of total disbursements of official funds in 1960 to 18 per cent in 1962.

The easing of financial terms of loans which has taken place in recent years has not as yet been fully reflected in disbursements, since a large part of these is related to commitments made in earlier years.

The shift towards softer terms is more clearly indicated by the data on new loan commitment shown in table 8-4. Loans with maturities of twenty years or more accounted for over half of new loan commitments in 1962 compared to less than one-third of loans actually disbursed in 1961-1962. The shift towards longer-term financing was most marked in the United States, but some other major donor countries have also granted longer repayment periods. Nonetheless the proportion of loans with very long maturities was much smaller in western European donor countries than in the United States. Thus, while over half of new United States loans were repayable over thirty or more years, the proportion of such loans was one-third of the total in France and 6 per cent in the United Kingdom; none of the other countries included in table 8-4 provided loans

Table 8-4. Distribution of Official Bilateral Loan Commitments according to Interest Rates and Maturities, 1962

(Percentage)

Item	Federal Republic of Germany	France	Italy	Japan	United Kingdom	United States	Total
<i>Interest rates</i>							
0 to under one per cent .....	—	—	—	—	8	58	39
One up to 3 per cent .....	—	28	—	—	—	2	3
3 up to 5 per cent .....	54	30	19	—	1	13	17
5 up to 6 per cent .....	40	27	4	40	33	27	29
6 per cent or more .....	6	16	77	60	58	—	13
TOTAL	100	100	100	100	100	100	100
<i>Maturities</i>							
One to 5 years .....	13	2	63	12	4	4	8
Over 5 to 10 years .....	3	12	22	81	16	6	13
Over 10 to under 20 years ....	52	38	14	7	1	23	24
20 to under 30 years .....	32	16	—	—	72	12	18
30 years or more .....	—	32	—	—	6	55	38
TOTAL	100	100	100	100	100	100	100

Source: Bureau of General Economic Research and Policies of the United Nations Secretariat, based on data from Organisation for Economic Co-operation and Development, *The Flow of Financial Resources to Less Developed Countries, 1956-1962*.

with maturities of that length. In the case of the United Kingdom, almost three-fourths of loans granted in 1962 had repayment periods of twenty to under thirty years, while over half of those of the Federal Republic of Germany matured over periods of ten to twenty years and the bulk of loans by Italy and Japan were repayable over ten years or less.

The new soft loan policy of the United States Government has appreciably reduced the average interest charge of development loans. Thus, two-fifths of the combined total of new loans granted by the major donor countries in 1962 carried interest at less than 3 per cent (*see* table 8-4). However, apart from the United States, which charged less than one per cent on more than half of all new loans, France was the only country to provide a significant proportion of loans at interest rates below 3 per cent; over half the loans by the Federal Republic of Germany carried interest at 3 to under 5 per cent, while rates in other donor countries ranged for the most part upwards of 5 per cent.

The flow of private capital to the developing countries comprises three broad categories of transaction: direct investment, security issues in the capital markets of the developed countries and lending operations and other transactions which do not involve

public issues. Direct investment has been the predominant form of private capital flows to the developing countries (*see* table 8-5). In recent years, a relatively large proportion of capital expenditure of direct investment enterprises has been financed through the reinvestment of profits. In the case of

Table 8-5. Selected Developed Countries: Percentage Distribution of Flow of Private Long-term Capital to Developing Countries, by Type, 1960

(Percentage)

Country	Total	Direct investment	Security issues	Other transac- tions
Germany (Federal Republic of) .....	100	46	1	53 <sup>a</sup>
Japan <sup>b</sup> .....	100	34	—	66
Netherlands .....	100	76	—	24
United Kingdom ..	100	72	<sup>c</sup>	28 <sup>d</sup>
United States ....	100	75	21	4

Source: See table 8-1.

<sup>a</sup> Including some direct investment which cannot be segregated from other transactions.

<sup>b</sup> 1961.

<sup>c</sup> Included in "other transactions".

<sup>d</sup> Including security issues.

the United States reinvested profits accounted in 1960-1962 for between one-half and two-thirds of total direct investment (*see* table 8-6). The proportion was especially high in the Latin American republics, which had been the major recipients of United States direct investment funds in the past. The proportion of direct investment financed out of reinvested earnings was somewhat smaller for the United Kingdom (*see* table 8-7), especially in the case of investment in Latin America. Public issues in the capital markets of western Europe and the United States were formerly an important source of foreign funds for many of the larger developing countries, but such issues have played only a minor role in development financing during the post-war years. Other private capital transactions have included suppliers' credits or bank loans for more than one year, financial participations in enterprises which did not involve control, miscellaneous real estate transactions and others. These transactions appear to have been more prominent in the private capital transfers of the Federal Republic of Germany<sup>4</sup> and

<sup>4</sup> The data for the Federal Republic of Germany include, however, some direct investment flows which cannot be segregated from other transactions.

Japan than of the United Kingdom or the United States, as table 8-5 shows.

In addition to supplying capital directly to the developing countries, the developed countries have also contributed substantial sums to multilateral lending institutions and to the technical assistance and relief activities of the United Nations and its specialized agencies. Throughout the nineteen fifties and early nineteen sixties, multilateral lending agencies, notably the International Bank for Reconstruction and Development (IBRD), have extended long-term loans to many less developed countries. Although such loan disbursements have been small in relation to funds supplied under bilateral programmes, the amount of development capital contributed by multilateral agencies has increased substantially since the recent establishment of several new agencies (*see* table 8-8). The terms on which development capital has been supplied by multilateral agencies have ranged from the equivalent of the agency's own borrowing cost plus a commission—in the case of IBRD loans and part of the loans granted by the Inter-American Development Bank (IDB)—through loans carrying a nominal interest charge of three-fourths of one per cent—loans by the International

Table 8-6. United States: Share of Reinvested Earnings and New Funds in Direct Investment in Developing Countries, 1960-1962  
(Percentage)

Region	Reinvested earnings			New funds		
	1960	1961	1962	1960	1961	1962
Africa .....	38	21	24	62	79	76
Asia (excluding Japan) .....	104	29	42	—4	71	58
Latin America .....	69	81	113	31	19	—13
Western hemisphere dependencies ...	54	33	39	46	67	61
TOTAL	62	51	66	38	49	34

Source: United States Department of Commerce, *Survey of Current Business* (Washington, D.C.).

Table 8-7. United Kingdom: Share of Reinvested Earnings and New Funds in Direct Investment in Developing Countries, 1960-1962  
(Percentage)

Region	Reinvested earnings			New funds		
	1960	1961	1962	1960	1961	1962
Africa .....	29	—2	91	71	102	9
Asia .....	50	63	71	50	37	29
Latin America .....	55	31	41	45	69	59
Other .....	13	6	—	87	94	—
TOTAL	38	21	60	62	79	40

Source: Bureau of General Economic Research and Policies of the United Nations Secretariat, based on data from a special questionnaire issued jointly by the United Nations Secretariat and the International Monetary Fund.



**Table 8-8. Net Disbursements by International Financing Agencies to Developing Countries, 1951-1962***(Millions of dollars)*

Organization <sup>a</sup>	Cumulative total	Annual average			
	1951-1962	1951-1955	1956-1959	1960-1961	1962
IBRD .....	2,301	124	243	220	269
IFC .....	47	—	3	11	15
IDA .....	57	—	—	—	57
IDB .....	53	—	—	2	49
EDF .....	63	—	—	10	53
<b>TOTAL</b>	<b>2,521</b>	<b>124</b>	<b>246</b>	<b>243</b>	<b>444</b>

Source: Bureau of General Economic Research and Policies of the United Nations Secretariat, based on data from annual reports of agencies listed.

<sup>a</sup> Abbreviations refer to the following agencies: IBRD for International Bank for Re-

construction and Development; IDB for Inter-American Development Bank; IDA for International Development Association; IFC for International Finance Corporation; EDF for European Development Fund.

Development Association (IDA)—down to outright donations made by the European Development Fund (EDF) of the European Economic Community. Loans granted by IBRD have had maturities ranging up to twenty-five years, while IDA loans issued to date have been repayable over periods of up to fifty years with grace periods of ten years.

Funds allocated by the United Nations Special Fund, the Technical Assistance Programme and relief agencies out of members' contributions amounted to nearly \$200 million annually in 1961 and 1962, as table 8-9 shows. Over one-third of the total consisted of the contribution of the United Nations Special Fund to the financing of pre-investment activities in the developing countries.

#### THE DISTRIBUTION OF FLOWS TO THE DEVELOPING COUNTRIES

In 1960-1962, rather more than one-third of the net flow of long-term funds from all sources (developed countries, centrally planned economies and mul-

tilateral agencies) was directed towards the developing countries in the Far East, somewhat less than one-third to Africa, over one-fifth to Latin America and the rest to western Asia<sup>5</sup> (*see* table 8-10).

The regional distribution has varied for the three main components of the flow—official donations, official loans and private loans and investments. The bulk of official donations has flowed to Africa and the Far East, each region receiving around two-fifths of the total in 1960-1962. The two regions together also accounted for three-quarters of official loans, with the Far East as the largest recipient. The flow of private capital, on the other hand, was largely concentrated in Latin America, which accounted for three-fifths of the total.

Since 1956-1959 the regional distribution of flows has shifted in favour of the Far East largely at the expense of Latin America. The Far East received

<sup>5</sup> The share of each of these regions may be somewhat understated owing to the fact that regional totals do not include certain private capital flows for which precise data are not available.

**Table 8-9. Allocation of Funds by United Nations Technical Assistance and Relief Agencies,<sup>a</sup> 1961-1962***(Millions of dollars)*

Year	EPTA	UNSF	UNICEF	UN Fund for the Congo	UNRWA	Total
1961 .....	30	72	21	32	43	197
1962 .....	42	74	27	10	44	196

Source: Bureau of General Economic Research and Policies of the United Nations Secretariat, based on data from annual reports of the agencies listed.

<sup>a</sup> Abbreviations refer to the following agencies: EPTA for Expanded Programme of

Technical Assistance; UNICEF for United Nations Children's Fund; UNRWA for United Nations Relief and Works Agency for Palestine Refugees; UNSF for United Nations Special Fund.

Table 8-10. Developing Countries;<sup>a</sup> Percentage Distribution of Net International Flow of Long-term Capital and Official Donations, by Region, 1956-1959 and 1960-1962

(Percentage)

Period and region	Net long-term capital and official donations					
	Population	Total	Official donations	Long-term capital		
				Total	Official	Private
1956-1959						
Total, developing countries..	100	100	100	100	100	100
Africa .....	18	29	34	25	36	18
Latin America .....	16	30	8	52	16	73
West Asia .....	4	10	11	9	15	5
Far East .....	62	51	46	15	33	4
1960-1962						
Total, developing countries..	100	100	100	100	100	100
Africa .....	19	32	42	24	29	13
Latin America .....	16	22	9	33	20	61
West Asia .....	4	9	11	7	6	9
Far East .....	62	37	38	36	45	18

Source: See table 8-1.

<sup>a</sup> Based on data for forty-seven individual countries and three groups of countries or

territories for which individual data are not available.

a higher proportion of the rising volume of official loans and it also attracted a larger share of private capital in 1960-1962 than in the earlier period. The decline in the share of Latin America in the total flow of funds was related to the region's high degree of dependence on private capital. The fact that the flow of private funds has not kept pace with the expansion of official flows has itself adversely affected the share of Latin America; in addition, there has also been some shift in the distribution of private capital from Latin America and Africa to West Asia and the Far East. The stagnation of private investment in the developing countries between the late nineteen fifties and the early nineteen sixties reflects to an important extent the repatriation of funds from the petroleum industry, which had in the past accounted for a significant proportion of the flow of private funds to Latin America. In 1960-1962, capital repatriation from Venezuela alone was equivalent to one-fourth of the net receipts of private funds of other countries in the area.

The regional distribution shown in table 8-10 fails to reflect clearly the basic pattern of international flows of long-term funds—namely, the high degree of concentration in a relatively small number of developing countries. Thus, as table 8-11 shows, fifteen countries accounted for three-fourths of the total flow of long-term funds and for more than the net receipts of private long-term capital of the developing countries as a group. The average per capita flow to this group was two-fifths larger than the average for

the rest of the less developed countries. The group of major recipients of external funds includes India, where the inflow on a per capita basis was well below the average for the developing countries in spite of the fact that on an aggregative basis it was the second largest recipient of capital and official donations. The flow to the other countries as a group was equivalent to over \$9 per capita, or two-and-one-half times the average for the rest of the developing countries. Included in this group are virtually all the more industrialized developing countries, which received, in addition to official funds, the bulk of the flow of private capital, several of the major Asian countries, some of which received substantial amounts of supporting assistance from the United States Government, and three African countries, among them Algeria (including the Sahara region), which was the chief recipient of aid and private capital from France.

In addition to being unevenly distributed among recipient countries, the total flow of long-term funds to individual countries has also been subject to wide year-to-year fluctuations. These fluctuations have reflected partly the instability of flows of private capital from the developed capital exporting countries and partly the discontinuous character of financing operations of the public sector. The bulk of funds for official aid programmes is provided under annual appropriation by the legislature of donor countries, a feature which may result in substantial year-to-year variations in aid allocations. Furthermore, the

Table 8-11. Net Inflow of Long-term Capital and Official Donations into Fifteen Developing Countries, 1961<sup>a</sup>

Country	Total net inflow (millions of dollars)			Per capita net inflow (dollars)
	Total	Official	Private	
Ghana .....	113	129	-16	16.1
China (Taiwan) .....	117	102	15	10.6
Viet-Nam (Republic of) .....	164	163	1	11.3
Chile .....	177	84	93	22.7
Nigeria .....	195	106	89	5.4
Korea (Republic of) .....	224	224	..	8.8
Pakistan .....	242	215	27	2.6
Israel .....	249	155	94	113.2
Mexico .....	296	127	169	8.2
Indonesia .....	354	365	-11	3.7
Puerto Rico .....	364	180	184	151.7
Argentina .....	395	163	232	18.7
Brazil .....	428	151	277	5.9
India .....	630	601	29	1.4
Algeria and Sahara region <sup>b</sup> .....	673	433	(240)	60.6
TOTAL	4,621	3,198	1,423	5.3
TOTAL, excluding India	3,991	2,597	1,394	9.2
Other developing countries .....	1,629	1,702	-73	3.7
All developing countries .....	6,250	4,900	1,350	4.7

Source: See table 8-1.

<sup>a</sup> Minus sign indicates net outflow.<sup>b</sup> Based on data as reported by France and by multilateral agencies.

practice of tying assistance to specific projects tends to give rise to variations in annual disbursements to individual recipients. This factor is the more important as many donor countries give preference in the allocation of funds to the larger projects involving substantial imports of equipment. In most developing countries, and especially in the smaller ones, such projects are relatively few in number. For that reason, inflows of external funds tend to be concentrated in years when such projects are carried out while relatively little assistance may be received in other years.

The degree of instability of the inflow of external long-term capital and official donations into individual recipient countries is indicated in table 8-12, which is based on annual percentage changes in the net capital receipts of 38 countries during the period 1951 to 1961. It can be seen that over 40 per cent of all changes consisted of reductions in net inflows or of shifts from net inflows to net outflows. About half of all year-to-year reductions were at rates of more than 25 per cent. The majority of increases recorded during the ten-year period were likewise at rates ranging from 26 to over 100 per cent.

It is interesting to note that the frequency of relatively large annual variations was not significantly higher in the case of private capital flows than in that of flows of official funds. One-third of all changes in official flows involved reductions of over 25 per

Table 8-12. Developing Countries:<sup>a</sup> Distribution of Year-to-Year Changes in Net Inflow of Long-term Capital and Official Donations in 1951-1961, by Rates of Change

(Percentage)			
Changes	Total	Official	Private
<b>Increases</b>			
Less than 10.....	4	5	5
10 to 25.....	8	6	6
26 to 50.....	13	6	8
51 to 100.....	11	13	10
More than 100.....	13	14	17
Change from outflow to inflow	9	13	8
Total number of observations.	58	56	55
<b>Decreases</b>			
Less than 10.....	6	4	6
10 to 25.....	8	7	3
26 to 50.....	8	10	10
51 to 100.....	11	11	15
More than 100.....	2	1	3
Change from inflow to outflow	8	10	9
Total number of observations.	43	44	45
Total number of changes...	100	100	100

Source: Bureau of General Economic Research and Policies of the United Nations Secretariat, based on data from International Monetary Fund, *Balance of Payments Yearbook*.

<sup>a</sup> Thirty-eight countries for which annual data are available for the entire period.

cent or shifts from net inflows to net outflows: in the case of private flows, such changes accounted for 37 per cent of the total. The corresponding figures for increases of over 25 per cent or shifts from net outflows to net inflows were 46 per cent for official and 43 per cent for private flows.

CAPITAL INFLOW IN RELATION TO THE EXTERNAL PURCHASING POWER OF DEVELOPING COUNTRIES

The flow of long-term capital and official donations to the developing countries has increased substantially faster since the early nineteen fifties than have their export receipts (*see* table 8-13). This has notably been the case in the countries which did not benefit from the post-war expansion of world demand for petroleum. By 1960-1962, the net flow of long-term funds to the developing countries accounted for one-fifth of total foreign exchange receipts from exports and net transfers of capital and official donations, the proportion ranging from 12 per cent in Latin America to 30 per cent in Africa (*see* table 8-14). Although the flow of private capital as well as of public funds increased more rapidly than exports since 1951-1955, private

long-term funds nonetheless contributed on the average only 4 per cent of foreign exchange receipts in 1960-1962. The ratio was 6 per cent in Latin America but only 2 per cent in Africa as well as in the Far East.

The growth of total export receipts of the developing countries was slowed down by declines in prices of many major export commodities. In addition to losses of external purchasing power resulting from the unfavourable course of export prices, the capacity of the developing countries to finance imports has also been diminished by increases in import prices. The reduction of the external purchasing power of exports which may be attributed to relative price changes, or the terms of trade "loss" during the period 1951-1962, has been very substantial. While any calculation of terms of trade "losses" presents a number of conceptual and statistical difficulties, and its results, by whatever method obtained, do not accurately reflect the net balance of losses and gains resulting from relative price changes,<sup>6</sup> the data shown

<sup>6</sup> The "loss" will vary according to the base period with respect to which it is measured. The choice of a base period inevitably involves an arbitrary decision regarding what is

Table 8-13. Developing Countries: Indices of Value of Exports, Imports and Net Inflow of Long-term Capital and Official Donations 1951-1955 to 1960-1962  
(1951-1955 = 100)

Item	1956-1959		1960-1962	
	Total	Total, excluding petroleum producers <sup>a</sup>	Total	Total, excluding petroleum producers <sup>a</sup>
Exports .....	112	107	125	110
Imports .....	119	116	131	127
Net inflow of long-term funds.....	181	164	231	248
Official .....	189	184	253	253
Private .....	171	100	171	250

Source: See table 8-1.

<sup>a</sup> Iran, Iraq and Venezuela.

Table 8-14. Developing Countries:<sup>a</sup> Percentage Distribution of Major Sources of Foreign Exchange, by Region, 1960-1962  
(Annual averages)

Region	Total	Net long-term capital and official donations			Merchandise exports
		Total	Official	Private	
Total developing countries.....	100	20	16	4	80
Africa .....	100	30	28	2	70
Latin America .....	100	12	6	6	88
West Asia .....	100	22	18	4	78
Far East .....	100	22	20	2	78

Source: Bureau of General Economic Research and Policies of the United Nations Secretariat, based on data from table 8 of United Nations, *International Flow of Long-*

*Term Capital and Official Donations, 1951-1959* (Sales No.: 62.II.D.1) and from *Statistical Yearbook, 1959* (Sales No.: 59.XVII.1).

<sup>a</sup> Based on data for fifty developing countries.

in table 8-15 do provide a conventional measurement of the effect of price changes taken by themselves on the import capacity of the developing countries. Total exports for the entire period 1951-1962, expressed in terms of the external purchasing power which they would have possessed had the relationships between export and import prices that prevailed in 1950 been maintained in the subsequent years, would have been larger by almost \$17 billion than actual export receipts for the eleven-year period. In other words, the deterioration of the terms of trade taken by itself involved a reduction in claims over external resources of the order of \$17 billion. This loss was equivalent to one-third of the total receipts of long-term capital and official donations of the developing countries, or two-fifths of receipts of long-term official funds and three-fourths of official donations alone, as table 8-15 shows. The deterioration in the terms of trade, and hence the "loss" would, of course, be much greater if measured on the basis of the relationship between export and import prices that prevailed during the commodity price boom of 1951.<sup>7</sup>

The deterioration in the terms of trade was substantially greater in Latin American countries than elsewhere, and its impact on the external purchasing power was correspondingly much larger. Although the region accounts for only one-third of the export receipts of the developing countries, its terms of trade loss was equivalent to three-fourths of the loss incurred by all developing regions. In these circumstances, the inflow of capital and official donations was not large enough to compensate for the effect of the deterioration in the terms of trade, as the following figures indicate:<sup>8</sup>

to be considered a "normal" relationship between export and import prices. Furthermore, by isolating statistically the contribution of price changes, one leaves out of account the impact of changes in export prices on demand for exports of primary products and hence on the export quantum.

<sup>7</sup> Calculation of the "loss" resulting from price changes since 1951 (when stockpiling associated with the outbreak of hostilities in Korea had inflated export prices) shows it to have been equivalent to over two-thirds of the total inflow of long-term funds, or of virtually all receipts of official donations and loans.

<sup>8</sup> It is possible to measure with a reasonable degree of accuracy the effect (as defined above) of the deterioration in the terms of trade on the external purchasing power of export receipts in relation to the capital inflow only for the two major geographic regions shown in the text. For the other regions, a similar comparison is not possible owing to inadequate price and capital flow data, especially for the earlier years included in table 8-15. Even for the two regions shown, the estimates are not strictly comparable with those for the totals because the latter are derived from the more comprehensive figures available for the net outflow of long-term funds from the developed countries and multilateral agencies, whereas the former are obtained from incomplete data for inflow of funds as reported by recipients.

## CUMULATIVE TOTALS, 1951-1962

(Billions of dollars)

	Latin American republics	Far East
1. Actual export receipts.....	98.5	84.4
2. Purchasing power of exports in terms of 1950 relationship of export and import prices.....	110.8	88.3
3. Difference resulting from relative changes since 1950 in export and import prices.....	12.3	3.9
4. Estimated net inflow of long-term capital and official donations		
a. Total .....	10.3	13.2
b. Total official funds.....	2.9	12.3
5. Row 3 as percentage of row 4a..	119	30
Row 3 as percentage of row 4b..	424	32

Source: See table 8-15.

**Table 8-15. Cumulative Loss of External Purchasing Power Resulting from Changes in Terms of Trade of Developing Countries in Relation to Net Inflow of Long-term Funds, 1951-1962**

(Billions of dollars and percentage)

Item	Cumulative total	
1. Actual export receipts of developing countries .....	296.5	
2. Purchasing power of exports in terms of 1950 relationship of export and import prices <sup>a</sup> .....	313.2	
3. Difference resulting from relative changes since 1950 of export and import prices .....	16.7	
4. Estimated net inflow <sup>b</sup> of long-term capital and official donations	Excluding reinvested earnings:	Including reinvested earnings:
a. Total .....	45.9	51.1
b. Total official funds.....	38.8	38.8
c. Official donations .....	21.7	21.7
5. Difference resulting from relative price changes as percentage of:		
Total net inflow of long-term capital and official donations (4.a) .....	36	33
Net inflow of official long-term funds (4.b) .....	43	
Net inflow of official donations (4.c) .....	77	

Source: See table 8-1.

<sup>a</sup> Value of exports in each of the years 1951-1962 divided by the ratio of the export unit value to the import unit value, with the base year 1950 = 100.

<sup>b</sup> Net flow to all developing countries as reported by developed countries and multilateral agencies includes net transfers of official capital and donations and private long-term capital. Data on outflows from centrally planned economies are not available.

In the developing countries of the Far East, the terms of trade deteriorated more moderately, and the resulting loss of external purchasing power was equivalent to 30 per cent of the total inflow of long-term funds. In this region, the slow increase in exports resulted to a greater extent from the sluggish growth of the volume of exports than from price declines for major export commodities. Within each region there were, of course, substantial differences in the experience of individual countries in this respect.

The combined loss from the deterioration in the terms of trade of Latin America and the Far East accounted for all but a fraction of the total loss of the developing countries as a group. Relative changes in export and import prices in the course of the period since 1950 have in fact resulted on the average in some small gains for Africa (excluding South Africa) over the period 1951-1962 taken as a whole, while the terms of trade loss of the Asian countries in the Middle East has been relatively small, owing to the favourable course of petroleum prices during most of that period.

The terms of trade losses as measured in table 8-15 do not reflect reductions in the external purchasing power of exports between the base year 1950 and the terminal year 1962, but the cumulative effect of terms of trade changes for the entire twelve-year period. Up to 1955 the terms of trade fluctuated widely, but on the average there was only a small deterioration compared to 1950. The deterioration

accelerated in the second half of the decade and continued, though more slowly, after 1959. Most of the loss from terms of trade thus has occurred since the mid-nineteen fifties.

The current value of exports of the developing countries approaches \$30 billion. At that level of trade, a one per cent deterioration in the terms of trade is equivalent to a 5 per cent reduction in the total—\$6 billion—flow of official and private funds to the developing countries, or to a reduction of the order of two-thirds in the net disbursements in 1962 of all multilateral lending agencies taken together. Viewed in this light, it is clear that, if the recent trends in the terms of trade were to continue, the additional aid contribution which would be required to maintain at all times the external purchasing power of the developing countries would have to be indeed large, in relation to the present flow of aid. The need for measures to help stabilize the terms of trade and thus to prevent the occurrence of a loss in the external purchasing power is thus readily apparent.

While the capital flow to the developing countries has in fact been larger than the losses from changes in the terms of trade, this supplement to the external purchasing power has not been without cost to the recipient countries. It has contributed to the rise in their external debt and in debt service payments which have placed an increasing burden on their foreign exchange resources, as table 8-16 indicates. Net interest and dividend payments by the

**Table 8-16. Developing Countries:<sup>a</sup> Export Receipts Net Inflow of Long-term Capital and Official Donations and Net Interest and Dividend Payments, Annual Averages for 1951-1955, 1956-1959 and 1960-1962**

(Billions of dollars and percentage)

Item	1951-1955		1956-1959		1960-1962	
	Total,	Total excluding petroleum exporters <sup>b</sup>	Total	Total excluding petroleum exporters <sup>b</sup>	Total,	Total, excluding petroleum exporters <sup>b</sup>
1. Export receipts .....	15.1	13.0	16.8	13.2	18.6	14.6
2. Long-term capital and official donations .....	1.9	1.7	3.7	3.2	4.4	4.7
3. Total foreign exchange receipts (1 plus 2) .....	17.0	14.7	20.5	16.4	23.0	19.2
4. Interest and dividend payments <sup>c</sup> .....	-1.5	-0.8	-2.1	-0.9	-2.4	-1.3
5. Line 4 as percentage of:						
Line 1 .....	10	6	12	7	13	9
Line 2 .....	79	47	55	30	55	28
Line 3 .....	9	6	10	6	11	7

Source: See table 8-1.

<sup>a</sup> Based on data for thirty-eight individual developing countries and for the group of countries in the French franc area; the capital

flow to the latter group excludes private capital.

<sup>b</sup> Iran, Iraq and Venezuela.

<sup>c</sup> Minus sign indicates net outflow.

developing countries included in that table were approximately \$0.9 billion larger in 1960-1962 than in 1951-1955, and the proportion of export receipts required to transfer such income payments increased from 10 per cent in 1951-1955 to 13 per cent in 1960-1962. However, since the inflow of capital increased substantially faster than exports, the ratio of interest and dividend payments to total foreign exchange receipts rose only from 9 per cent in the first period to 11 per cent in the second, while the ratio to the net inflow of long-term funds actually declined from 79 per cent in 1951-1955 to 55 per cent in 1960-1962. Since the exports of countries other than petroleum producers increased more slowly than the average for all developing countries, the ratio of interest and dividend payments to the exports of these countries increased more sharply than the average, namely, from 6 per cent in 1951-1955 to 9 per cent in 1960-1962. However, in view of a steep rise in the inflow of long-term funds to this group of countries, the ratio of their interest and dividend payments to their total foreign exchange receipts increased very little, while the ratio to the inflow of long-term funds fell from 47 per cent in 1951-1955 to 28 per cent in 1960-1962, as table 8-16 shows.

The comparison between the inflow of long-term funds and the outflow of interest and dividends provides an indication of the foreign exchange supplement to export receipts derived from these transactions. That supplement increased as an annual average from \$0.4 billion in 1951-1955 to \$2.0 billion in 1960-1962, or from \$0.9 billion in the first period to \$3.4 billion in the second in the case of countries other than petroleum exporters. The regional breakdown of inflows of capital and official donations and interest and dividend payments in the years 1956-1962 was as follows:

CUMULATIVE TOTALS, 1956-1962  
(billions of dollars)

	<i>Net inflow of capital and official donations</i>	<i>Interest and dividend payments</i>
Africa .....	10.0	-0.6
Latin America, total.....	9.5	-9.3
TOTAL, excluding Venezuela	8.7	-4.8
West Asia, total.....	2.8	-3.6
TOTAL, excluding Iran and Iraq	2.0	-0.3
Far East .....	7.6	-1.5
TOTAL <sup>a</sup>	30.0	-15.1
TOTAL, excluding Iran, Iraq, Venezuela	28.3	-7.2

Source: See table 8-1.

<sup>a</sup> Including the countries covered in table 8-16; the total for Africa includes private capital flows to franc area countries which are not included in table 8-16 owing to the unavailability of data for 1951-1955.

While the comparison between the net inflow of capital and the net interest and dividend payments reveals the supplementary foreign exchange received by the developing countries, it does not yield a measure of the cost of foreign capital currently received, nor of the total net contribution of foreign capital to the external purchasing power. It is not a measure of the cost of capital in any given period because part of the interest and dividends paid during the period represents a charge not for the inflow of capital during that period but for loans and investment received earlier. Thus, to measure the cost of the inflow of capital in any given period, it would be necessary to deduct the gross interest and dividend paid at the beginning of the period from the amounts paid during the period and to compare this increment with the amount of capital received during the period.<sup>9</sup> Second, the balance of capital inflow and the outflow of interest and dividends is not a measure of the full effect of capital transactions upon external purchasing power, because it does not allow for the fact that in so far as the foreign capital, private as well as official, contributes to the expansion of productive capacity for exports or for import substitution, it has a long-term effect upon external purchasing power in addition to the current contribution that it makes as a supplement to export proceeds in the year in which it is received. Data are not available to indicate how much of the export proceeds and import savings are attributable to such inflow of foreign capital. However, some impression of the importance of this factor may be obtained from estimates of the effect of private direct foreign investment of the United States in the year 1957, summarized in table 8-17. According to these estimates, the output of these enterprises produced \$5.2 billion of export receipts, an amount which was equivalent to 20 per cent of total commodity exports of the developing countries in that year. The bulk of these receipts, some \$3.5 billion, was derived from the petroleum industry and about half of the balance from mining and smelting. Out of their export earnings the enterprises in question financed imports (other than capital equipment) required for their operation, various fees and the transfer of investment income to the foreign investors, still leaving a significant margin of foreign exchange available for other foreign purchases. It is also probable that part of the \$8.2 billion of goods sold in the domestic market represented import savings. Official capital has likewise contributed to

<sup>9</sup> It should be further noted that the data in table 8-16 relate to net interest and dividends paid after deduction of income received and that similarly the inflow of capital represents the balance after deducting long-term outflows from the developing countries. In order to obtain an estimate of the cost of inflows only, it would be necessary to have data relating to gross interest and dividend paid out. Such data are available on a consistent basis only since 1961.

Table 8-17. Non-Capital International Transactions of United States Direct Investment in Developing Countries, 1957

(Millions of dollars)

Item	Total	Manufacturing	Petroleum	Mining	Other <sup>a</sup>
Exports	5,212	287	3,460	893	572
Less:					
Imports (non-capital) .....	-1,876	-444	-1,348	-65	-19
Fees paid abroad.....	-100	-34	-41	-135	-117
Net income paid abroad.....	-1,484	-110	-1,144		
SUB-TOTAL of above	-3,460	-588	-2,533	-200	-136
Direct impact on foreign exchange supplies .....	1,752	-301	927	693	436
Local sales and revenues.....	8,200	3,862	3,412	186	740

Source: United States Department of Commerce, *United States Business Investments in Foreign Countries* (Washington, D.C.).

<sup>a</sup> Including agriculture, public utilities and

some small amounts in mining in the Far East and Oceania for which no separate data are available.

export expansion and import substitution in the developing countries. However, because of the predominant orientation of the recipients' development programmes towards the establishment of productive capacity catering to the domestic market, official capital is likely to have had a relatively greater impact on import saving than on the expansion of export receipts.

#### THE FLOW OF LONG-TERM FUNDS IN RELATION TO DEVELOPMENT TARGETS AND THE RECIPIENTS' NEEDS

The General Assembly, in resolution 1522 (XV), has set as a target for the transfer of resources to the developing countries one per cent of the combined gross domestic product of the economically advanced countries. In 1961, the total net flow of both official and private long-term funds from all developed market economies to the developing countries and multilateral agencies was equivalent to 0.8 per cent of their combined gross domestic product, of which 0.7 per cent consisted of bilateral transactions or 0.6 per cent of official bilateral transactions with the developing countries. The share of resources which individual countries have transferred has not been uniform, nor was it the intent of the General Assembly resolution that it should necessarily be so. The term "developed countries" covers a group with widely differing resource endowment and per capita incomes, factors which affect the ease with which resources can be spared. For that reason, some economists have suggested that the assessment of contributions to development aid should be based on the progressive income tax

principle<sup>10</sup> or at least that any future contribution out of increments of the gross national product should be based on that principle.

The size of individual official aid programmes is largely the result of historical factors, and the share of resources devoted to them in 1961 ranged from little more than 0.1 per cent of gross domestic product, in some of the smaller donor countries without special commitments to overseas countries, to as much as 1.5 per cent in the case of France, which has assumed heavy responsibilities for development financing in its former dependencies and associated countries. The range of official contributions to bilateral and multilateral programmes in 1961 in relation to the donors' gross domestic products at market prices is indicated by the following percentages:

	Official aid contribution as percentage of gross domestic product, 1961	
	Total flow	Bilateral flow
France .....	1.50	1.38
Belgium .....	0.73	0.55
United States .....	0.67	0.62
United Kingdom .....	0.59	0.54
Netherlands .....	0.56	0.24
Germany (Federal Republic of) <sup>a</sup> .....	0.53	0.41
Japan .....	0.45	0.43
Italy .....	0.19	0.14
Canada .....	0.17	0.12
Norway .....	0.19	0.02

<sup>a</sup> 1962.

<sup>10</sup> See P. N. Rosentstein-Rodan, "International Aid for Under-developed Countries", *The Review of Economics and Statistics*, May 1961 (Cambridge, Massachusetts).



The share of resources transferred to the developing countries attained a peak in 1961 which has thus far not been exceeded. Disbursements of official aid as well as private capital flows fell off slightly in 1962 while the domestic product of the donor countries increased on the average by 5 per cent. The ratio of net contributions to gross domestic product therefore appears to have fallen in 1962. Preliminary data for 1963 do not point to a significant recovery in the ratio.

The decline of aid disbursements in 1962 appears to have been chiefly the consequence of a growing lag between commitments and disbursements. According to data published by the Organisation for Economic Co-operation and Development, the combined aid commitments of the United States and eight other donor countries and of multilateral agencies exceeded gross disbursements by over \$1.9 billion in 1961 and by \$2.3 billion in 1962, as table 8-18 shows. Funds in the "aid pipeline"—total outstanding bilateral and multilateral commitments at the end of 1962—have been estimated at close to \$8.0 billion. However, although outstanding commitments are very substantial, new bilateral commitments increased by little more than 3 per cent from 1961 to 1962, while commitments of multilateral agencies levelled off. Thus, although disbursements can be expected to accelerate in the future as a result of the utilization of earlier commitments, once this backlog is eliminated, the expansion of aid may slow down appreciably unless the rise in new commitment should accelerate once again.

In purely quantitative terms the flow of long-term funds was relatively large in relation to domestic in-

vestment in the majority of recipient countries, as table 8-19 shows. In two-fifths of the recipient countries for which data for 1960-1961 are available, the inflow was equivalent to 30 per cent or more of domestic capital formation. The proportion would be much higher if more of the smaller and economically least developed countries were included in the sample. With the exception of Israel and Puerto Rico, in the more industrialized countries where rates of investment were relatively high, the inflow, though large in absolute terms, was generally equivalent to only between 10 and 20 per cent of capital formation.

The flow of funds to the developing countries comprises a wide range of transactions of unequal quality from the point of view of contributing to the development needs of the recipient countries. Transfers of official funds vary not only in respect of the financial burden they impose on the recipient but also in character and purpose, as may be seen from the following figures:

	Percentage distribution of official funds committed for bilateral assistance, 1962 <sup>a</sup>
Budgetary assistance (including United States supporting assistance) .....	16
Reparations and indemnification payments....	2
Transfers of agricultural surpluses:	
For sale against local currencies.....	17
Other .....	7
Development grants .....	7
Technical co-operation .....	11
Loans extended in lenders' currency <sup>b</sup> .....	40
TOTAL	100

Source: See table 8-2 and national sources.

<sup>a</sup> Based on data for France, the Federal Republic of Germany, Italy, Japan, United Kingdom and United States; data for France relate to gross disbursements.

<sup>b</sup> Loans made out of local currency proceeds from the sale of agricultural surpluses are included in "Transfer of agricultural surpluses".

**Table 8-18. Commitments and Gross Disbursements of Official Loans and Donations<sup>a</sup> to Developing Countries<sup>b</sup> by Selected Donor Countries and Multilateral Agencies, 1961 and 1962**

(Billions of dollars)

Donor	1961		1962	
	Commitments	Disbursements	Commitments	Disbursements
Nine donor countries <sup>c</sup> ..	6.1	5.0	6.3	4.6
Multilateral agencies <sup>d</sup> ..	1.2	0.4	1.2	0.6
TOTAL	7.3	5.4	7.5	5.2

Source: Organisation for Economic Co-operation and Development, *The Flow of Financial Resources to Less Developed Countries*.

<sup>a</sup> Including transfers of surplus commodities.

<sup>b</sup> See foot-note b to table 8-3.

<sup>c</sup> Canada, Denmark, Federal Republic of Germany, Italy, Japan, Netherlands, Norway, United Kingdom and United States.

<sup>d</sup> Lending institutions and technical assistance and relief agencies as listed in table 8-6 and 8-7.

About one-fifth of official bilateral contributions in 1962 was accounted for by various kinds of budgetary assistance—United States supporting assistance and grants by France, the United Kingdom and Italy—to cover budgetary expenditures of Governments in dependent territories and associated countries, and by reparations payments. While it is known that the emphasis in the allocation of such donations has to some extent shifted towards aid in support of developmental expenditures in the assisted countries, it is difficult to assess how large was the total direct contribution of such transfers to development financing.

Table 8-19. Developing Countries:<sup>a</sup> Distribution According to Ratio of Capital Inflow<sup>b</sup> to Gross Domestic Product and Gross Domestic Fixed Capital Formation, 1960-1961

(Percentage)

<i>Ratio of inflow to gross domestic product</i>	<i>Percentage of aid recipients</i>	<i>Ratio of inflow to gross domestic fixed capital formation</i>	<i>Percentage of aid recipients</i>
Negative .....	6	Negative .....	6
0 to 2 per cent .....	32	0 to 10 per cent .....	23
Over 2 to 4 per cent .....	29	Over 10 to 20 per cent .....	23
Over 4 to 6 per cent .....	6	Over 20 to 30 per cent .....	6
Over 6 to 8 per cent .....	6	Over 30 to 40 per cent .....	6
Over 8 per cent .....	20	Over 40 per cent .....	35
TOTAL	100	TOTAL	100

Source: Bureau of General Economic Research and Policies of the United Nations Secretariat, based on data from International Monetary Fund, *Balance of Payments Year-*

*book* and from Statistical Office of the United Nations.

<sup>a</sup> Thirty-two major recipients of external capital.

<sup>b</sup> Total long-term capital and official donation.

Another one-fourth of the total represented transfers of surplus agricultural commodities. Transfers of surplus food-stuffs, made chiefly by the United States Government under Public Law (PL) 480, were of several kinds. Surpluses shipped for sale against local currencies, under PL 480 Title I, which accounted for the major share of food aid, were in principle designed to supplement the supplies normally available in the recipient country. Since the domestic supply of food-stuffs is generally not very responsive to changes in demand, food aid given in this form can be a valuable instrument to reduce inflationary pressures and to facilitate the implementation of investment programmes, especially where such programmes involve large expenditures on labour and domestic supplies. In addition to this type of "programme assistance", food aid has also been provided for specific development projects. Such project aid, granted by the United States Government under PL 480 Title II and by the World Food Programme, involves the allocation of specific quantities of food-stuffs to development projects for use as wage payments in kind or for sale in local markets for the purpose of obtaining funds to cover project expenditures. Food aid has also been given for relief and for the purpose of improving nutritional standards of children and other selected groups. The last two categories appear to have accounted for 25 to 30 per cent of total food transfers by the United States.

As against the more than 40 per cent of total assistance contributed in forms which provided largely supplementary consumption, less than 20 per cent of total assistance consisted of grants extended for specific development purposes and technical assistance.

The remaining 40 per cent of bilateral assistance in 1962 consisted of loans in the lender's currency. The impact of such loans varies according to the length of repayment periods and the financial and other terms on which they are granted. The contribution of a loan to the resources of the borrower, other things being equal, is likely to be the greater the longer the repayment period of the loan and the lower its interest charge. While relatively short-term loans on commercial terms are appropriate for certain purposes—for instance, for the financing of imports of essential materials or even of equipment for industrial projects with a relatively short pay-out period—they constitute commercial transactions rather than development aid. As was shown earlier in table 8-4, an increasing proportion of loans granted in recent years had long repayment periods of twenty years or more and carried nominal or relatively low interest charges. Such loans have included, in varying degree, an element of subsidy or grant.

Factors determining the contribution of private loans and credits to the financing of development are essentially the same as those relating to official loans. Private loan funds, as distinct from direct investment capital, are provided for a period and at interest rates fixed at the time the transaction takes place. Funds obtained through bond issues in the capital markets of developed countries generally involve long maturities and hence relatively small annual amortization payments, but effective interest rates tend to be higher than in the case of public loans because the private lender bears the risks. These financing operations have not been on a significant scale during the post-war years, however. More important as a source of private capital have been

banks and suppliers providing credits to finance exports to developing countries, usually with a guarantee of their own government. These transactions have generally involved relatively short repayment periods of less than five years, and interest charges have been above those prevailing in domestic transactions. It is estimated<sup>11</sup> that the net annual flow of guaranteed export credits has averaged \$400 million since the mid-nineteen fifties, of which only one-third has consisted of credits for periods exceeding five years. However, the proportion of credits for periods exceeding five years increased rapidly during this period and attained two-thirds of the total in 1962.

Private direct investment capital is supplied for an indefinite period, but in view of the risks involved, the returns expected are necessarily higher than those on loan funds. Private direct investment has tended to concentrate in sectors related to foreign trade or international service transactions. As table 8-20 shows, almost half of the United States direct

investment capital went into the petroleum industry and mining and smelting, which are oriented towards export markets. The data for the United Kingdom shown in table 8-21 are less revealing in this regard, partly because they do not include investment in the petroleum industry. Manufacturing industry accounted for one-third of direct investment of the United States and for over two-fifths of that of the United Kingdom. The growth of direct investment in manufacturing was also linked with foreign trade since many of the enterprises were established by foreign companies which, having developed a market for their products through exports, proceeded to initiate local manufacturing operations. Although few of these enterprises are as yet on a scale to undertake production for export, there are indications that, given favourable conditions, progress may be made in that direction, especially if the movement in favour of regional or sub-regional economic integration among developing countries gathers momentum.

While private direct investment has necessarily concentrated on the directly productive sectors of the economy, especially in mineral production for

<sup>11</sup> Organisation for Economic Co-operation and Development, *The Flow of Financial Resources to Less Developed Countries*, 1961.

Table 8-20. United States: Percentage Distribution of Gross Outflow of Private Capital for Direct Investment, by Industry and by Region, Average 1959-1962<sup>a</sup>

Region	Total	Manu- facturing	Petroleum	Mining and smelting	Other <sup>b</sup>
Latin America .....	100	66	—5	5	34
Western hemisphere dependencies ...	100	11	36	2	51
Other <sup>c</sup> .....	100	10	75	14	—
TOTAL <sup>d</sup>	100	33	38	9	21

Source: United States Department of Commerce, *Survey of Current Business*.

<sup>a</sup> Data refer to net changes in foreign direct investment assets of the United States.

<sup>b</sup> Including public utilities, trade and other unspecified investments.

<sup>c</sup> Including Africa, Asia (excluding Japan) and other developing countries not specified.

<sup>d</sup> Including international shipping.

Table 8-21. United Kingdom: Percentage Distribution of Gross Outflow of Private Capital for Direct Investment, by Industry and by Region, Average for 1959-1961<sup>a</sup>

Region	Total <sup>b</sup>	Manufacturing	Agriculture	Other <sup>c</sup>
Latin America .....	100	65	—35—	
Rest of sterling area .....	100	41	8	50
Other non-sterling area .....	100	33	—67—	
TOTAL	100	44	—56—	

Source: United Kingdom Board of Trade, *Board of Trade Journal* (London).

<sup>a</sup> Based on data relating to net changes in foreign direct investment assets of the United Kingdom.

<sup>b</sup> Excluding investment in the petroleum industry and insurance.

<sup>c</sup> Including mining, construction, distribution, transport and communications and banking.

export and on manufacturing, official loans and donations were to a large extent directed into projects in the economic and social infra-structure. The development of these sectors is a prerequisite for industrial growth and it is therefore generally stressed in the development plans of the recipient countries. Data on the sectoral distribution of projects financed with aid-funds clearly reflect this pattern (*see* table 8-22). It should, however, be noted that project assistance has accounted for only between 45 and 55 per cent of bilateral aid contributions of the countries included in the table. Only for the multi-lateral agencies which limit their operations to project assistance do the data therefore reflect the distribution of total aid.

It is likely that the distribution of non-project bilateral aid by sectors, for which no data are available, would show a somewhat different pattern from that of project assistance, since the latter tends to be directed towards larger projects which are more prominent in the case of transport, power and public construction than in that of manufacturing industry or agriculture. As table 8-22 shows, projects in power generation and transport and communications accounted for half of the total aid committed for development projects, while around 10 per cent of the total went to social infra-structure development. Another 10 per cent was channelled into agriculture, but in fact a large part of this also

consisted of infra-structure projects, notably in irrigation and land-reclamation. The manufacturing and mining sectors together obtained little more than one-quarter of total project assistance. The emphasis on infra-structure development was especially marked in the case of IBRD and IDA loans, 70 per cent of which were devoted to the establishment and expansion of power plants, railway development, port improvement and road construction. Assistance by these agencies to the agricultural sector also consisted almost exclusively of the financing of irrigation and similar projects.

Official assistance and private capital have thus complemented each other in some degree. But although the share of manufacturing industry in private direct investment was relatively large, the actual amount involved was small in relation to the capital requirements for industrial development. Moreover, as noted earlier, the bulk of private capital was directed towards the small number of industrially more advanced developing countries. For that reason, among others, greater emphasis on industry in the allocation of official aid may be desirable. There are indication that some reorientation of aid policies in this regard is beginning to take place. If prospects for exports of manufactures from the developing countries improve in consequence of new international action, manufacturing industry would certainly need to be assigned a higher priority in the allocation of aid than it has been given in the past.

**Table 8-22. Distribution of Official Funds Committed for Development Projects according to Economic Sectors, 1962**

(Percentage)

<i>Sector</i>	<i>United States<sup>a</sup></i>	<i>United Kingdom</i>	<i>France<sup>b</sup></i>	<i>Germany (Federal Republic)</i>	<i>IBRD and IDA<sup>c</sup></i>	<i>Total<sup>d</sup></i>
Food and agriculture <sup>e</sup> . . . .	9	18	10	2	16	10
Manufacturing and mining	35	40	4	34	13	25
Power . . . . .	25	15	14	31	16	20
Transport and communications . . . . .	18	14	13	29	54	30
Social infra-structure . . . .	6	12	33	4	—	10
Other . . . . .	7	—	27	—	1	5-10
TOTAL	100	100	100	100	100	100

*Source:* Bureau of General Economic Research and Policies of the United Nations Secretariat, based on data from official national and international sources.

<sup>a</sup> Includes AID project loans and grants, and Export-Import Bank project loans. Data relate to fiscal year 1962.

<sup>b</sup> Includes only development project grants to Algeria, which accounted for over half of total aid contributions; contributions to "other"

projects include assistance for local development. Data relate to gross expenditures in 1961.

<sup>c</sup> Data relate to loan agreements signed in 1961.

<sup>d</sup> Percentages in this column are estimates of general orders of magnitude based on the data in the preceding columns, which are not strictly comparable with each other owing to differences in time periods and coverage.

<sup>e</sup> Including irrigation and land-reclamation projects.

## Aid policies, institutions and procedures

### THE INSTITUTIONAL FRAMEWORK OF AID PROGRAMMES

Since most developed countries have had aid programmes of one form or another for some time, the institutional framework within which current aid programmes are administered is generally of long standing. A number of the governments of these countries have long provided aid in the form of direct financial assistance to dependent territories or to countries with which they have special political or military ties; and such aid has usually been administered by various governmental departments, such as those concerned with foreign affairs, defence or colonial affairs. In addition, several developed countries, including some which have no special links with developing countries, have also provided loans and credits through official export financing agencies, such as the Export-Import Banks in the United States and Japan or the Kreditanstalt für Wiederaufbau in the Federal Republic of Germany. Mention may also be made of the export credit guarantee and insurance schemes operated by most governments of developed countries. While these schemes do not provide direct assistance to developing countries out of public funds, their existence has sometimes enabled developing countries to obtain private export credits at lower interest rates and with longer repayment periods than would otherwise have been possible.

The several entities which comprise the institutional means through which aid programmes are administered have generally come into being at different times and to serve different purposes. Efforts have, of course, been made to adapt these entities in order to meet the requirements of current aid programmes. Official export financing agencies, for example, while not established primarily to cater to the needs of trade with developing countries, have in practice increasingly focused their operations on the long-term financing of exports of equipment and other producers goods to developing countries. Similarly, the operations of governmental departments dealing with direct financial assistance have been modified as the emphasis in the allocation of donations—partly as a consequence of the changes in political relationship between donors and recipients—has shifted from budgetary support to the financing of specific development projects.

Although efforts have been made to adapt the institutional machinery to the changed circumstances and requirements, a major defect which persists in the machinery of most donor countries is the fragmentation of responsibility for the administration of aid programmes among several government

departments and agencies. As the volume of aid operations has grown and as the concept of development aid as a deliberate act of public policy has gained general acceptance, the weaknesses of the existing institutional framework have become more apparent. While Governments have endeavoured to co-ordinate and centralize the administration of aid programmes, progress towards centralization has thus far been slow. Even in the United States, where the Agency for International Development (AID) was established in 1961 for the purpose of administering bilateral aid—both financial and technical assistance—under the Foreign Assistance Act, centralization remains incomplete. Although the Agency is responsible for preparing the programming documents which form the basis for co-ordinating United States aid activities, and it administers the local currency funds derived from the sale of surplus agricultural commodities under Public Law 480, transactions such as, for instance, the allocation of agricultural surpluses and of loans by the Export-Import Bank remain outside its competence.

None of the other major donor countries possess agencies comparable in scope to that of the AID although the Federal Republic of Germany has recently established a Ministry of Economic Co-operation which shares responsibility for the formulation of assistance policy with the Interministerial Committee on Development Policy. However, the role of this new department is much more restricted than that of the AID in the United States. In the United Kingdom and France the administration of bilateral assistance programmes continues to be divided between the ministries for external affairs, the departments responsible for matters relating to dependent territories and associated countries, and other agencies. The United Kingdom has, however, recently set up a Department of Technical Co-operation, which carries out most of the technical assistance programme and which could eventually take a more active part in the programmes involving capital expenditures. Most of the other donor countries have set up, within the past three years, new aid agencies but, in practice, the responsibility of these bodies has generally been confined to the administration of technical assistance programmes. To the extent that these countries operate official loan programmes, the funds are usually provided through the official export credit financing or insurance system, or directly by the Treasury.

Bilateral aid programmes are largely financed through the national budgets of donor countries and the level of assistance is therefore determined annually. The need to seek annual legislative authority

for aid commitments limits the scope for long-term planning of aid by donor countries and obliges recipients to negotiate the external financing required for their development plans on a year-by-year basis.

In an effort to give greater continuity to their aid programmes, some governments have sought authority to make multi-year aid commitments. For instance, the Government of the Federal Republic of Germany has acquired power to make legally binding advance commitments to individual recipients; these specify a ceiling up to which acceptable projects may be financed over a period of several years. The French Government has adopted a three-year financing programme for overseas departments and territories and has given an undertaking to maintain a specified level of aid to Algeria. The French legislature has also agreed to vote appropriations for the financing of entire programmes in the independent African and Malagasy States, but payment authorizations under these appropriations are voted annually. In the United Kingdom, the volume of aid is partly determined by annual budgetary appropriations—chiefly for grants in aid to dependent territories—and partly by Acts of Parliament which establish a ceiling for the amount of loans that may be disbursed over a period of several years. In addition, the Government also provides assistance through the Commonwealth Development Corporation, a public corporation with its own resources established for the purpose of assisting the development of productive enterprises in dependent territories and the newer independent Commonwealth countries. The volume of aid available under the United States foreign assistance programme is determined by annual congressional appropriations. Food aid under Public Law 480 Title I, has in some cases, been granted on the basis of multi-year agreements, so as to facilitate the integration of such aid with development plans, but, in principle, food aid is also based on annual allocations.

While several donor countries also provide assistance through permanent lending agencies which do not depend for their resources on annual budgetary appropriations, the terms on which such agencies are able to lend are usually less favourable than those for loans financed through the budget. For that reason, many developing countries are reluctant to resort to this type of financing, even though they may be eligible under the more stringent criteria applied by these institutions.

Besides the various efforts which have been made at the national level to adapt and improve the institutional machinery for the implementation of aid programmes, there have been certain important

developments in the international field. It is perhaps indicative of the willingness of governments to accept responsibility for development assistance on a more or less permanent basis, that several new multilateral agencies have been established in recent years. Until the late nineteen fifties, the International Bank for Reconstruction and Development (IBRD) and its subsidiary, the International Finance Corporation (IFC), were virtually the only multilateral agencies providing financial assistance to developing countries. New agencies or schemes established since 1958 include the United Nations Special Fund, the International Development Association (IDA), the World Food Programme, the European Development Fund (EDF) of the European Economic Community, and the Inter-American Development Bank (IDB). In 1963 the Economic Commission for Africa approved statutes for an African Development Bank which is now in the process of being established. In addition, the question of setting up a United Nations Capital Development Fund or of transforming the United Nations Special Fund into a Capital Development Fund remains under active consideration. Funds supplied by the developed countries to multilateral lending institutions and to United Nations Technical Assistance and relief agencies increased from some \$300 million a year in 1956-1959 to an average of \$700 million in 1960-1962. A common characteristic of most of the newer agencies is their ability to provide assistance on very favourable terms. Thus, the United Nations Special Fund, the World Food Programme and, until recently, the EDF, provide grants only, while the lending terms of IDA involve nominal interest charges and very long grace and repayment periods. The IDB provides both "hard" loans on terms similar to those of the IBRD and loans on concessionary terms.

Multilateral lending institutions are in principle able to take a longer-term view in planning their operations than are bilateral assistance agencies. For agencies which are able to finance their loan transactions through the capital market, such as the IBRD and the IDB, there is no serious problem of uncertainty regarding the future availability of funds, though the borrowers have to bear the relatively high cost of this type of financing. However, agencies such as the IDA and EDF must operate on the basis of capital subscriptions which need to be periodically replenished, since the terms on which assistance is given preclude financing through the capital market. Although subscriptions are usually pledged for periods of several years, there is no assurance that the level of subscriptions will be maintained in subsequent years. Thus, although multilateral lending institutions have a somewhat longer time horizon than do bilateral assistance agencies, the former also encounter difficulties in the long-term planning of aid.

## CRITERIA FOR THE ALLOCATION OF ASSISTANCE

Special political and economic ties have generally determined the particular groups of developing countries to which donor countries have extended bilateral financial assistance. Within the framework of political considerations, however, decisions with regard to the relative size of aid programmes to individual countries and the types of projects to be financed under these programmes have been based on criteria of a social or economic nature. It has been possible to allocate aid on the basis of the degree of poverty or economic under-development prevailing in developing countries or on the basis of some more strictly economic criterion such as the probable effect of aid on economic growth.

For some donor countries, the issue of choice of criteria has at least been partly resolved by the nature of their special relationship to particular developing countries. Donor countries with special obligations towards dependent territories or former colonies have of necessity given considerable weight to welfare criteria. Similarly, the European Development Fund, which was set up specifically to assist dependencies and former dependencies of members of the European Economic Community has in practice also allocated aid on the basis of welfare criteria. The special obligations of such donor countries and institutions have not prevented them from supplying capital on a substantial scale to other developing countries on the basis of more strictly economic criteria. To this extent, they have been confronted with the same question of choice of criteria as have other donor countries. It is, however, primarily among those donor countries which have not been committed to any specific group of recipients or type of assistance that the choice of criteria has been a major issue.

Donors have invariably struck some compromise between conflicting welfare and economic criteria, but in most cases there has been greater emphasis on the immediate or relatively short-run development impact of aid than on the criterion of need. The major example of this mixed approach is offered by the policy of the United States. The United States Government has provided food aid primarily on the basis of need although, at the same time, it has encouraged the maximum use of such aid for developmental purposes. Its technical assistance and development grants have also been directed, in large measure, towards countries at an early stage of development. In addition, it has set up the Social Progress Trust Fund for assistance to social development projects in Latin American countries. The bulk of its capital assistance proper, however, has been channelled to countries deemed to be approaching the stage of self-sustaining growth or

to be making a major developmental effort through development plans and sound growth policies. The provision of capital assistance in fact has frequently been made contingent upon the implementation of self-help policies.

A well-conceived development plan has come to be generally accepted as an appropriate basis for the allocation of aid. The reviewing of such plans by donors has in many cases become an indispensable first step in dealing with applications for assistance. The existence of a plan has not only helped the individual donor in assessing the recipient's priorities and the role assigned to the project for which assistance has been requested, it has also facilitated the co-ordination of the contributions of several donors. Because of the importance attached to effective development planning, technical assistance in this field has played an increasingly important part in the process of aid allocation.

In extending aid for the financing of individual economic projects, most donor countries have considered that infrastructure projects in such fields as power and transport and communications should be given high priority. Besides falling within the traditional public sector of most developing countries, such projects usually require relatively large capital outlays and entail a substantial expenditure of foreign exchange on imported equipment. For such reasons they have been deemed to be particularly suitable for external financing from public funds. However, the wisdom of the prevailing degree of concentration on projects of this kind has sometimes been questioned on the grounds that their contribution to development is necessarily linked with the growth of other sectors of the economy.

Some donor countries, however, have also given high priority to large-scale industrial projects which would contribute, through import substitution, towards alleviation of the balance of payments position of the recipient country. Such aid to industry has been received notably for the establishment of steel mills, cement plants and other major enterprises. The emphasis of donors on import-substituting development projects has been a natural consequence of the response of developing countries to the unfavourable development of their exports. It may be desirable for donor countries to take the initiative and encourage recipients to prepare more projects for the export sector in the light of new export opportunities that may arise. The possibilities and needs in this field are examined in a later section.

Diversification of assistance and the possibility of providing aid to sectors which have hitherto been neglected is being studied by various agencies. The

financing of projects involving relatively small operations raises problems of administration and control which require new techniques of assistance. One such technique, which has been successfully applied by the IBRD-IFC, consists of the establishment and financing of industrial development banks in the recipient countries; such banks distribute external funds to a variety of domestic enterprises and supervise their use. Some individual donor countries have also given financial support to these banks and have used them to distribute assistance. A similar approach might be used to channel assistance into agriculture.

#### RESTRICTIONS IMPOSED ON ASSISTANCE

Most donor countries place some restrictions on the use of their aid contributions. These restrictions fall into two broad categories: restrictions with respect to the purposes for which assistance may be used, and the limitation of aid-financed imports to procurements in the donor country. The two may, of course, be combined in any given instance.

##### *Restriction to specific uses*

Donors may restrict the use of aid contributions to the financing of specific projects or they may provide assistance for general developmental purposes. In either case, they may limit their contributions to the financing of identifiable imports or they may provide foreign exchange resources to cover imports as well as local expenditures of a project or programme.

Several donor countries and virtually all multi-lateral lending agencies provide assistance primarily or exclusively for specific development projects. Project financing involves close co-operation between the donor and the recipient country, its results can be readily identified and evaluated, and it facilitates the co-ordination of technical and financial assistance. To the recipient country the project approach has a number of drawbacks, especially if its investment policy is based on an over-all plan. While some major projects can be effectively carried out in isolation, there are many that require the execution of complementary or otherwise related projects in order to yield the best results. In such cases the need to negotiate the financing of each project separately, possibly with more than one donor, gives rise to problems of timing and co-ordination. If, as is frequently the case, project assistance covers only the direct import requirements—machinery, equipment and materials needed for the execution of the project—the recipient may also be faced with the problem of finding supplementary foreign exchange resources to meet the additional import requirements arising from the increased income generated by the domestic

investment expenditure. The widespread practice of providing project assistance to cover only direct import requirements is based on the consideration that the recipient country should engage its own resources to the fullest possible extent in the execution of investment projects. Nevertheless, the financing of additional imports to meet the demand generated by local expenditure may be beyond the capacity of the assisted country. In that event, the project may have to be abandoned or the recipient country may be obliged to resort to short-term external credits, thereby adding to its future balance of payments problems. Because of the potential burden of local cost financing on the foreign exchange resources of developing countries, the practice of limiting project assistance to direct import requirements has tended to encourage the execution of projects with a relatively large import component at the expense of many equally important projects which involve relatively large local expenditures.

Programme assistance, which consists in the provision of finance to cover a variety of expenditures, has the obvious advantage of greater flexibility and may allow for a more economical use of resources. The amount of latitude allowed to recipients in the use of funds has, in practice, varied. Some assistance has been given as a general supplement to the recipient's resources, but this has been largely confined to budgetary assistance to dependencies and associated or allied countries. Programme assistance in the form of general development loans has been increasingly tied to the financing of identifiable imports, though not necessarily to imports of capital goods. But, even where the purpose of programme loans has been the financing of specific imports, the borrower has usually been given a measure of freedom in determining the commodities to be imported. In cases where assistance is tied to procurement in the donor country, programme aid has an added advantage over project finance in that it enables the recipient to select those commodities in which the donor has a price or quality advantage over other suppliers.

Among donor countries Canada, the Federal Republic of Germany, Italy and Japan have placed the main emphasis in their loan programmes on project financing and they have in large part concentrated on the financing of direct import requirements. However, each of these countries has at various times granted general development or balance of payment loans as well. The Federal Republic of Germany has recently also introduced a programme of assistance for so-called maintenance imports, to finance imports of spare parts and materials into developing countries. In the United States, the bulk of long-term loans granted by the



Export-Import Bank has been given for specific projects and has covered direct import requirements only. The AID, however, besides continuing to extend project loans, has provided an increasing volume of general development loans. The former have usually been tied to direct import requirements, but in some cases additional resources have been made available to cover some local costs. Programme loans have been granted chiefly for the financing of specific imports.

Under the programme of the French Government, capital assistance has been primarily oriented towards project financing within the framework of development plans, but in addition, substantial amounts of cash assistance have also been provided in support of local budgets and for general development purposes. Project assistance usually covers direct import requirements as well as all or part of local costs.

The pattern of United Kingdom assistance and the restrictions placed on the use of funds have been largely determined by the relationship with the recipient. Budgetary assistance to dependencies has, of course, not been tied to specific projects. Development loans and grants to dependencies have been given either for projects or for general purposes within the framework of development programmes. Such assistance appears to have normally covered both imports and local costs. Commonwealth assistance loans under the Export Guarantees Act have been predominantly programme loans, but in some cases loans have also been provided for individual projects, such as the Durgapur steel plant in India or the Volta project in Ghana. Loans to non-Commonwealth countries under the same Act have been granted either for programmes or projects. In most instances such loans have covered direct import requirements only, but additional assistance to meet local costs has sometimes been provided.

In other donor countries, as in the countries reviewed above, the approach has varied in accordance with the relationship to the recipient. Thus, both the Netherlands and Portugal have emphasized programme assistance including local cost financing in overseas territories or associated countries.

In general, multilateral agencies have confined themselves to the financing of specific development projects. IBRD loans have covered the direct import requirements of assisted projects, although the Bank has, on occasion, departed from this rule. Loans by the IDA and those made out of the Fund for Special Operations of the IDB have been granted, in some cases, for the financing of direct import requirements only, and in others they have also covered requirements arising from local expenditures. EDF

grants have usually been given for specific infrastructure projects and they have covered both direct import requirements and some local costs.

### *Procurement restrictions*

Most donor countries restrict at least part of their bilateral aid contribution to purchases of their own products. Reasons given for applying such restrictions include balance of payments difficulties or the existence of idle capacity or unemployment in the donor country. Factors such as a desire to promote domestic exports or to compensate exporters for the loss of sales in traditional markets which may have resulted from procurement restrictions of other donor countries have also influenced government policies with respect to aid tying.

The tying of contributions to exports from the donor country has taken various forms. Most commonly, loans and grants for the financing of specific imports have been tied by contractual agreements which provide that all or part of the assistance will be used exclusively for procurement in the donor country or in countries specified by the donor. It has been more difficult to tie assistance which is not specifically linked with imports, such as budgetary support payments or general development loans and donations, but it is for this reason that donor countries have tended to shift from this type of assistance to loans and grants earmarked for specific imports. Another type of aid which is in most respects indistinguishable from formally tied aid is the official export or import credit. It has been claimed by some that such credits do not belong to the category of tied aid because they are granted after the borrower has selected his source of supply. In practice, the availability of credit has tended to influence the choice of supplier to a greater extent than have price or quality considerations. In these circumstances, it seems appropriate to treat such credits as a form of tied aid. Contributions in kind, such as transfers of United States agricultural surpluses under Public Law 480, might also be termed tied aid, but since such aid is dependent upon the existence of surpluses in the donor country, it is in a separate category.

Governments in donor countries have recognized that aid tying may have undesirable consequences for recipients and there is a large measure of agreement among them that the practice should be discontinued as soon as difficulties which have led to the introduction of restrictions have been eliminated. The adverse impact of procurement restrictions on recipients arises chiefly from the fact that such restrictions reduce competition between potential suppliers and may render impossible the procurement of imports from the optimum source of

supply. The effect of this is greater when aid is given for the purchase of equipment required for a specific project than in the case of general development assistance which gives the recipient a wider choice of commodities to be imported. The importance of the widest possible competition for contracts to supply equipment is revealed by the experience of the IBRD, which requires international competitive bidding for all contracts financed with its loans. An analysis of competitive bidding for a sample of IBRD contracts placed in 1956-1962 showed that in more than half of the cases the lowest bid was at least 35 per cent below the highest bid and 20 per cent below the average bid. The average number of bids per contract was ten.

Procurement restrictions may involve not only higher costs, and hence a larger loan to be serviced, but also the purchase of equipment manufactured in the donor country which may not meet fully the recipient's requirements. Moreover, the availability of aid may encourage the execution of those projects for which suitable equipment can be readily obtained in the donor country, even if the recipient's development programme did not assign the highest priority to such projects.

According to an estimate of the OECD, approximately one-fifth of bilateral aid contributions by the major donor countries in western Europe, North America and Japan in 1961 consisted of direct commodity transfers, and over two-fifths of formally tied financial contributions including export credits. Formal restrictions on the use of aid funds have tended to be more extensively applied by countries with world-wide aid programmes, such as Italy, Japan and, latterly, the United States—though not the Federal Republic of Germany—than by those which have concentrated their contributions on developing countries with which they have close financial, economic and cultural ties. Donor countries such as France and the United Kingdom, have, at least until recently, relied in varying degree on their special relationship with recipients to ensure that a large part of assistance would be used for purchases of the donor's products. Aid recipients have, in fact, tended to follow established patterns of trade in determining sources of procurement. This has notably been the case with respect to recipients of French aid which have particularly close commercial ties with France.

Until the late nineteen fifties, the United States Government did not apply formal procurement restrictions except in the case of Export-Import Bank loans. In consequence of the deterioration of the balance of payments, restrictions were introduced in 1959 and tightened in subsequent years. The tying provisions affect all procurements in other industrial

countries and procurements under development loans in developing countries. In order to control the use made by recipients of certain cash contributions, the United States Government also instituted a system of restricted accounts to which such contributions are credited and it provides some other assistance in the form of irrevocable letters of credit. Purchases in developing countries from grant aid funds, however, continue to be allowed. Also, procurements from loans out of the Social Progress Trust Fund for Latin America may take place in any member country of the Organization of American States (OAS). As a consequence of the aid tying provisions, 80 per cent of all bilateral aid disbursements had, as of 1962, been tied, and the proportion spent in the United States of aid given by AID to finance specific imports had increased from 41 per cent in 1959-1960 to over 70 per cent in 1962-1963. Although aid tying has been successful in increasing aid-financed procurement in the United States, the over-all impact on the balance of payments may not have been quite as large as the shift in procurement suggests.<sup>12</sup>

The United Kingdom generally does not formally tie its aid contributions to dependencies or its grants to newly independent countries. Loans to independent Commonwealth countries and to foreign countries are tied to the purchase of British goods. In 1962, the United Kingdom authorities took steps to ensure that official loans and grants to dependencies, to the extent that they were directly used to finance imports, would not be spent outside the United Kingdom unless British suppliers are unable to furnish the goods "on reasonably competitive terms".

French assistance to the independent African and Malagasy States, in so far as it is directly linked with imports, is tied to purchases in France or franc area countries. Local work on development projects must also be carried out by firms from the franc area. Assistance to overseas departments and territories is not formally tied, while assistance to Algeria for specific capital projects is now tied to purchases in France. A substantial proportion of French assistance to Algeria as well as to dependencies and to the independent African and Malagasy States is in the form of cash contributions for budget support and general purposes, the use of which is not restricted. French contributions to countries outside the franc area consist primarily of technical assistance and of a few export credits which are, by their nature, tied.

Loans granted by the IBRD, IFC, IDA and IDB are not tied and the agencies insist on international

<sup>12</sup> This question is examined in some detail in a document prepared for the United Nations Conference on Trade and Development entitled "External Assistance and the Balance of Payments of Donor Countries" (E/CONF.46/P/13).

competitive bidding for contracts financed under such loans. The main exception to the principle of untied assistance relates to the use of local currency subscriptions by the less developed member countries of IDA and IDB which may not be utilized outside the contributing country without its consent. EDF assistance was until recently tied to procurement in EEC member countries; since early 1963, procurement in any member country of the Organisation for Economic Co-operation and Development has been permitted.

Significant progress towards the elimination of aid tying would require a joint approach by all donor countries. As indicated earlier, the application of restrictions by one donor has tended to give rise to similar measures by other countries. For that reason, agreement on simultaneous action would seem to hold the best prospect for success. Liberalization of procurement practices would have to be undertaken by stages, since the sudden removal of all restrictions might have serious short-run effects on donors' balances of payments. At a minimum, donor countries might agree to waive procurement restrictions in the case of imports by recipients from other developing countries. The United States has made such arrangements with respect to imports under development grants. The United Kingdom, under the existing consultation procedures with respect to the use of assistance by dependencies, generally also permits the financing of imports from other developing countries. The French Government has also exempted from the aid tying provisions imports from developing countries in the franc area. If this approach were to be generalized, the developing countries might benefit both as importers and as exporters.

As a first step towards reducing restrictions on procurement in other developed countries, donors might agree to untie a proportion of aid given under joint financing arrangements, such as consortia. A broader approach might consist of an agreement among donors to waive contractual procurement restrictions under certain specified conditions, such as the existence of unduly long delivery periods in the donor country. Eventually, it may become possible to introduce a system whereby waivers are granted on submission of proof by the recipient country that the goods it requires are not available in the donor country "on reasonably competitive terms" with respect to price, delivery date and other relevant factors. This procedure would probably induce most aid recipients to seek bids from several suppliers both within the donor country and outside it, a step which would in itself be beneficial. The possibility of losing contracts to foreign suppliers would oblige those in the donor country to

trim costs and take greater pains to meet the special requirements of the aid receiving country.

While liberal procurement procedures would clearly enhance the benefits of aid to the recipients, in certain circumstances the tying of aid may in practice be the only alternative to a reduction in aid contributions. There may also be cases where an increase in aid contributions is contingent upon the utilization of surpluses or idle capacity in the donor country. In such cases inflexible adherence to the principle of untied aid would be to the advantage of neither donor nor recipient.

#### INTERNATIONAL CO-ORDINATION OF AID

In view of the multiplicity of aid programmes and the growing number of developing countries which receive aid from several sources, the need for co-ordination of aid activities has been increasingly felt both by recipients and donors. Administrative resources in recipient countries are limited and the need to deal with each donor separately places a very considerable strain on these resources. Each application for aid usually involves a close examination of the prospective recipient's development plan, programmes and resources and, if several donors are involved, there may be duplication of effort and time consuming consultations which are especially burdensome for the understaffed agencies of recipient governments. The co-ordination of the projects of several donors also makes heavy demands on the recipient's administrative cadres. But even apart from these practical difficulties, the lack of consistency in the criteria employed by donors in selecting projects and determining terms of aid may lead to a misdirection of efforts. For these reasons, among others, recipients have urged that more aid be channelled through multilateral agencies and that assistance under bilateral programmes be more closely co-ordinated by the donors themselves.

Since all major donor countries are committed to bilateral programmes, the approach to the problem of international co-ordination has been confined to efforts to harmonize national aid policies and practices. The Development Assistance Committee (DAC) of the Organisation for Economic Co-operation and Development, on which the major donor countries are represented, has been set up as the chief instrument for the international co-ordination of aid policies. The Committee has provided a forum for the discussion of problems of common concern to aid donors. Its Annual Aid Review has enabled its members to subject each other's programmes and policies to close scrutiny and to search jointly for acceptable solutions of critical issues. DAC action on the operational side

has consisted of the establishment of co-ordinating groups for some individual less developed countries. The function of these groups has not necessarily been the assembling of financial contributions (as in the case of the more formal consortia); they have helped recipients in a variety of ways to ensure that the combined aid contributions of donors is related to their over-all needs and capacities. Similar groups have also been set up under the auspices of the IBRD.

In a limited way, donor countries have co-ordinated some of their aid contributions under the so-called consortia in which several donors co-operate in the financing of a particular project or programme in an individual recipient country. These groups examine the financial requirements and plans of their respective recipients and seek to meet them under their separate aid programmes. They have no formal machinery for centralizing contributions and each donor member negotiates the terms of his contribution directly with the recipient. Consortium financing originated as an *ad hoc* arrangement to consider the provision of additional resources for India's development plan during a severe balance of payments crisis. A second consortium was subsequently set up for Pakistan. In addition to these, which operate under the auspices of the IBRD, two consortia—for Turkey and Greece—were established by OECD. The experience of consortia has demonstrated the benefits of a joint examination of the recipient's development plan and policies, which has enabled each of the donors to dovetail his contribution as far as possible with those of the others so as to meet the recipient's over-all needs.

The Alliance for Progress in Latin America and the Colombo Plan in South and South-East Asia represent, each in its own particular way, arrangements for the co-ordination of aid at the regional or sub-regional level. The Alliance, which was established under the auspices of the Organization of American States, stresses co-ordination of aid—given chiefly by the United States—with domestic efforts and policies in the recipient countries. Participants in the Colombo Plan include Australia, Canada, Japan, New Zealand, the United Kingdom and the United States and all the developing market economies of South and South-East Asia, except China (Taiwan). Apart from a small permanent Technical Co-operation Programme, the Plan does not provide a direct channel for external assistance, but acts as a clearing house for information and as a centre for consultation on development problems. Significant amounts of capital assistance have, however, been given by the developed member countries under the general auspices of the Plan. In fact, the independent Commonwealth countries

—Australia, Canada and New Zealand—have devoted a large part of their bilateral aid contributions to assist fellow members of the Colombo Plan.<sup>13</sup>

Although efforts undertaken under the auspices of the DAC and other international organizations have produced some tangible results, the international co-ordination of external assistance is still in its early stages. A common approach on criteria and methods, collaboration in the study of recipient's plans and policies, the establishment of more consistent terms and conditions and joint action with a view to liberalizing procurement procedures would contribute towards increasing the effectiveness of the aid effort.

#### THE ROLE OF TECHNICAL ASSISTANCE IN AID PROGRAMMES

Shortage of technical skills and of trained administrative and managerial personnel is a major obstacle to progress in many developing countries. Moreover, inadequate knowledge of the resources and economic potential of a country limits the effectiveness of capital assistance extended to it. Technical assistance, therefore, plays a strategic role in economic development and in the aid programmes of all donor countries. Expenditures for technical assistance have increased several-fold during the past decade and, in 1962, about one-tenth of official bilateral aid contributions was devoted to this purpose. The United States, France and the United Kingdom have supplied the bulk of bilateral technical assistance but, in recent years, many other donor countries have set up special agencies to administer their growing programmes in this field. At the same time, the United Nations Regular and Expanded Programmes of Technical Assistance and the United Nations Special Fund have increased and diversified their activities.

Technical assistance mainly involves two types of operations: the provision of educational and training facilities for nationals of developing countries, and the provision of foreign experts to advise governments, to fill gaps in trained personnel and to undertake on-the-spot training of nationals of the recipient country. In addition, the United Nations Special Fund combines technical assistance with some supporting capital aid for pre-investment purposes, such as resource surveys, the establishment of training and applied research facilities and similar operations.

The magnitude of technical assistance operations in recent years may be gauged from an estimate

<sup>13</sup> The Indus Basin Development Fund is another co-operative venture in which a number of donor countries have combined with the IBRD to finance costs arising out of the division of the waters in the Indus basin between India and Pakistan under the Indus Waters Treaty.

of the Organisation for Economic Co-operation and Development according to which some 60,000<sup>14</sup> technicians and experts were supplied to developing countries under bilateral programmes in 1962, while governments of the developed countries gave financial support to approximately 40,000 students and trainees from developing countries. In addition, the technical assistance programmes of the United Nations financed 5,700 fellowships and provided over 5,000 experts in that year. Private organizations and consulting firms have likewise engaged in this field of work.

In view of the present scale of activities, recruitment of suitable personnel has become increasingly difficult. Donor countries, which by virtue of their former responsibilities for colonial administration have experts and administrators with experience in overseas service, have used these experts in so far as they have been suitable for work under the changed conditions in recipient countries. Other donor countries which have not had such experienced manpower to draw upon have been obliged to recruit in competition with domestic employers or to engage staff under short-term contracts. Governments have called upon universities, technical schools and education authorities to second staff, but such secondment has necessarily been for limited periods only. Efforts have also been made to associate industry with technical assistance operations. Some countries have contemplated the establishment of a career service for technical assistance, but the prospects of a career in this field have been considered too uncertain to attract the type of people needed for this kind of work.

In technical assistance, as in capital aid programmes, there is a need for closer international co-ordination of efforts. Basic differences in the approach and techniques employed and taught by individual donors are confusing to the recipient and

are likely to reduce the effectiveness of the total aid given. Moreover, in view of the difficulty of recruitment, duplication and overlapping of programmes within an individual recipient country are a wasteful use of the available resources.

In many cases, technical and financial assistance need to be combined to achieve best results. Recipient countries frequently lack basic facilities as well as qualified staff, and in these circumstances the provision of some capital for the establishment and equipment of schools, demonstration centres, clinics and hospitals, or even small plants in which new techniques may be demonstrated, would greatly increase the impact of the technical assistance given. For that reason, several donor countries have set aside funds for development grants out of which both basic capital expenditures and technical assistance are financed.

No less important than the provision of capital to strengthen technical assistance work is the integration of technical with capital assistance at all stages of the execution of an investment project and beyond that, if required, the provision of temporary assistance in the operation of the project. The shift from private to public sources of capital for development financing has divorced the transfer of capital from any automatic link with technical and managerial skills, which are closely integrated in private direct investment financing. Since know-how and technical skills are essential elements of a successful investment operation, it is important to devise ways for combining public financing with the provision of the necessary skills. To some extent, this is in fact done, especially under the programmes of France, the United Kingdom and the Netherlands, in so far as they are directed towards dependencies and associated countries. But especially in cases where several donors of capital are involved, the technical assistance aspect of operations is often not adequately covered and co-ordinated. The problem needs to be reviewed both in the context of co-ordination within the individual donor's programme and in that of international co-ordination.

<sup>14</sup> Around two-thirds of this total represent French technical assistance personnel serving chiefly in Africa.

## Measures to increase the flow of external finance and to improve its terms

### INCREASING THE FLOW OF AID TO DEVELOPING COUNTRIES

Aid makes demands on government budgets and domestic output in donor countries and it is potentially a charge on their balance of payments. As long as aid programmes were marginal in the economies of donor countries or a reserve of idle resources was available, the necessary domestic

adjustments did not place a significant burden on their citizens. But over the past decade, the programmes of several donor countries have expanded to the point where their domestic economic impact has ceased to be negligible, especially since the economies of the majority of countries have operated close to full employment levels in recent years. In these circumstances, a further increase of aid would necessarily have stronger repercussions on domestic

consumption or investment. Moreover, several donor countries have experienced balance of payments difficulties of varying degree of severity, which have been aggravated to some extent by the provision of certain kinds of aid.<sup>15</sup> In view of these domestic and external pressures, Governments have become cautious in requesting increases in aid appropriations. In some countries, the reluctance to increase aid programmes has also stemmed from a desire to reduce public expenditures and taxation even though resources were not fully employed.

The developed countries have, by a resolution of the General Assembly of the United Nations, set a joint target to raise their contribution so as to attain at an early date a level of one per cent of their combined gross national product. As indicated earlier, progress towards the achievement of this goal appears to have been arrested in the past two years and the attainment of the target may therefore require several more years. An examination of possible measures to accelerate progress would clearly be desirable. In this connexion, consideration might be given to the feasibility of donors pledging a proportion exceeding one per cent of future increments of output for development aid. This approach would have the very considerable advantage of involving no sacrifice of current levels of consumption and investment in donor countries and it would also facilitate the transfer problem since increases in aid would be directly linked with increases in domestic output.

The need for action to accelerate the flow will be the greater if a scheme for the compensation of losses resulting from the long-term deterioration of terms of trade is initiated. As indicated earlier, the amount of funds required for such a scheme might be very substantial and compensatory finance would need to be additional to the resources transferred under aid programmes to make a real contribution to the recipients.

Various proposals have been put forward for the utilization of surpluses for development aid. The United States programme for the transfer of food surpluses to developing countries under PL 480, which has been described earlier, has already made an important contribution. Canada and Australia have contributed food-stuffs for economic development under the Colombo Plan, and in recent years, the Federal Republic of Germany has also supplied some small amounts of surplus agricultural products for economic assistance. The World Food Programme established under General Assembly Resolution 1714 (XVI) represents a co-operative effort

to utilize food surpluses for economic development in which both developed and developing countries participate as donors. In the light of experience to date, an expansion of the programme is contemplated.<sup>16</sup>

A first approach to the utilization of idle capacity for economic aid was recently made by the Government of the United Kingdom, when it announced in 1962 that additional development loans would be made available for purchases from specified British industries which possessed idle capacity. A number of credits have already been granted under this plan. Measures along similar lines might be considered for adoption by developed countries as an instrument of anti-cyclical policy. While such additions to regular aid allocations are necessarily tied to exports from the donor country, they can nonetheless make a valuable contribution to the financing of development, especially if basic aid programmes provided an adequate amount of untied aid to permit flexibility in the use of the aid granted to any one recipient.

In the event of the conclusion of a world-wide agreement on a reduction of military expenditures, a substantial proportion of capacity in heavy industry would become available for civilian production. In these circumstances, a significant increase in public expenditure on aid could be effected without imposing a new burden on taxpayers or productive capacity of the donor countries.

Military budget expenditures of the major donor countries in 1957-1959 were within the range of 4 to 10 per cent of their gross national products. A reallocation of only 10 per cent of budgetary defense expenditures to economic aid would probably more than double the present flow of aid to developing countries. Furthermore, a reduction in military establishments in the developing countries themselves would enable them to step up their development effort. As was noted by the consultative group on Economic and Social Consequences of Disarmament appointed by the Secretary-General of the United Nations, special measures might be required to ensure that some of the resources released from arms production would be channelled into development aid.<sup>17</sup>

<sup>16</sup> The issues raised by and the potential scope of food aid for economic development are discussed in some detail in United Nations, "Food Aid and Other Forms of Utilization of Agricultural Surpluses" (mimeographed document E/CONF.46/47).

<sup>17</sup> In the words of the Committee, "Because the competing claims in developed countries are also urgent there is a serious possibility that the financial resources released by disarmament might be rapidly absorbed by purely national aims. It is therefore desirable that an appropriate proportion of these resources should be allocated to international aid in its various forms simultaneously with their use for domestic purposes." United Nations, *Economic and Social Consequences of Disarmament* (Sales No.: 62.IX.1), page 51.

<sup>15</sup> For a discussion of the impact of aid on the donor country's balance of payments, see United Nations, "External Assistance and the Balance of Payments of Donor Countries" (mimeographed document E/CONF.46/P/13).

The provision of financial and technical aid has only recently become a generally accepted feature of international economic relations and its implications and purposes are often not adequately understood by the public in donor countries. An effort to increase public understanding of the issues involved, notably of the long-term character of the problem of overcoming economic backwardness, would be an important first step towards public acceptance of the increasing burden which expanding aid programmes entail.

The flow of resources to developing countries is affected not only by policies and economic conditions in donor countries but also by the circumstances of the recipient countries. A country's ability to absorb loans on "hard" terms depends of course upon its capacity to service such loans out of increased output and exports. Since much capital is required at least in the first stages for the development of a suitable infra-structure, a relatively high proportion of capital must consist of donations and "soft" loans. There are, however, limits to the amount of additional capital which a low-income country can effectively employ for development at a given time. These limits depend, of course, on the definition of "effective employment of capital" which is applied. Since the flow of official funds is not determined by market forces, the donor country itself sets the standard of "effective employment" of capital or the "yield" in terms of output or indirect benefits which it expects the capital to produce and it guides itself accordingly in determining the amount of aid it is willing to grant in the form of donations or "soft" loans. In view of the fact that the supply of aid, and especially of donations and "soft" loans is limited, donors are obliged to apply fairly stringent standards of "effective employment of capital" in allocating aid. Technical assistance in project elaboration as well as in development planning has played an increasingly important role in enlarging the recipients' capacity to utilize external capital effectively.

The contribution of foreign long-term capital to economic development has, to some extent, been offset throughout the post-war years by a steady outflow of short-term funds from the developing countries. There are considerable difficulties in ascertaining the magnitude of this outflow since much of it has either not passed through official channels or has been in a form which renders identification difficult. A large part of the flow is therefore assumed to be included in the "errors and omissions" item of the balance of payments of developing countries. As table 8-23 shows, the recorded outflow of short-term funds (changes in short-term assets) from the developing countries for which data are available has amounted to only

some \$600 million during the ten-year period 1952-1961. The errors and omissions item of balances of payments, on the other hand, has shown for the same period a net outward movements of funds of almost \$2.9 billion. This excludes a substantial proportion of the transaction of franc area countries with metropolitan France; the errors and omissions item of the balance of payments of France with overseas franc area countries has shown a net flow to France<sup>18</sup> of the order of \$4 billion for the five years 1957 to 1961 alone. Of this amount only some \$600 million has originated in countries included in the table. The total flow of short-term funds, including the errors and omissions item, is thus likely to have exceeded \$7 billion over the ten-year period.

The net outflow from countries other than those in the franc area has been of the order of \$2.4 billion. Latin America alone has recorded an outflow of \$3.1 billion, while other developing countries have recorded a net inflow of short-term funds including unrecorded transactions during the period 1952-1961 taken as a whole. It may be noted that the outflow of short-term capital from Latin America was equivalent to over 30 per cent of the net flow of long-term funds to the region during the same period. The outflow of capital from the overseas franc area was primarily the result of special circumstances, notably the events leading up to the establishment of Algeria as an independent State. It may be expected that the flow will taper off now that political stability has been restored. The problem in Latin America is of a different kind. The outflow of funds has proceeded without interruption for a decade or more in spite of the fact that many of the countries which have recorded a significant outflow have maintained restrictions on foreign exchange transactions. Capital flight has frequently been enhanced by political instability, the effects of domestic inflation and by repeated exchange rate depreciation. The solution is therefore closely bound up with the solution of the region's broader economic and financial problems, though undoubtedly improved administration of tax and foreign exchange programmes could materially reduce the magnitude of the outflow. The ability of recipients of flight capital to stem or reverse the inflow of funds is limited, especially since a substantial part of such transfers is made in a form which precludes identification of origin. Any attempt to mobilize flight capital for economic development would be faced with similar difficulties. In any event the utilization of such funds for the financing of development would require vigorous action by Governments in the countries of origin of

<sup>18</sup> The large unrecorded flow of funds from the overseas franc area, which attained \$1.5 billion in 1961 and is thought to have risen further in 1962, has reflected primarily transfers by French residents in Algeria and elsewhere in Africa.



**Table 8-23. Reported Private Short-term Capital Flows from Developing Countries and Errors and Omissions in their balance of Payments, 1952-1961:<sup>a</sup> Cumulative Total**

(Millions of dollars)

Item	1952-1956	1957-1961	1952-1961
<i>Short-term assets</i>			
Latin America .....	-314	-262	-576
Sterling area .....	-110	116	6
French franc area .....	12	-92	-80
Other .....	-6	28	22
TOTAL	-418	-210	-628
<i>Net errors and omissions</i>			
Latin America .....	-845	-1,711	-2,556
Sterling area .....	234	-101	133
French franc area .....	-408	-559	-967
Other .....	463	72	535
TOTAL	-556	-2,299	-2,855
<i>Total funds</i>			
Latin America .....	-1,159	-1,973	-3,132
Sterling area .....	124	15	139
French franc area .....	-396	-651	-1,047
Other .....	457	100	556
TOTAL	-974	-2,509	-3,484
Estimated French franc area not included above <sup>b</sup> .....	...	-3,500	...

Source: Bureau of General Economic Research and Policies of the United Nations Secretariat, based on data from the International Monetary Fund. See also United Nations mimeographed document E/CONF.46/20.

<sup>a</sup> The country coverage for 1957-1961 is

larger than that for 1952-1956. No sign indicates a net inflow of funds; a minus sign, net outflow.

<sup>b</sup> Based on the errors and omissions item of the balance of payments of metropolitan France with overseas franc area countries.

the funds in addition to appropriate co-operation by countries receiving flight capital.

#### THE FINANCIAL TERMS OF AID AND THE PROBLEM OF THE RISING DEBT SERVICE BURDEN OF DEVELOPING COUNTRIES

It has been estimated that the outstanding external public and publicly guaranteed debt of developing countries amounted to over \$24 billion at the end of 1962 of which \$17 billion had actually been disbursed.<sup>19</sup> The servicing of that debt involved annual payments of some \$900 million for interest and \$2.1 billion on account of amortization. The total "debt service burden" of \$3.0 billion was equivalent to over 10 per cent of export receipts in 1962. In addition to the servicing of public and publicly guaranteed debt, developing countries have to make

provision for the financing of income payments on private direct foreign investment. For the developing countries as a whole, payments of direct investment income (including reinvested earnings) were twice as large as interest payments in 1961, and for some regions, notably Latin America, they were relatively much larger. Such equity income is, of course, variable, and since a large proportion of direct investment is in export industries, income tends to vary with export receipts. Data for Latin America—the only region for which consistent statistics on direct investment income are available for a number of years—bear this out (see table 8-24). In all but two of the years between 1951 and 1960, changes in direct investment income were in the same direction as those in export receipts. On the other hand, payments of other income, primarily payments of interest, rose almost without interruption as the external fixed interest debt increased. From 1951 to 1960 such payments more than trebled, while direct investment income was not significantly higher in 1960 than in 1951 despite the

<sup>19</sup> Based on an estimate of IBRD. The data on disbursed and undisbursed portions refer to developing countries including Spain, Turkey and Yugoslavia which are not treated as developing countries in other parts of the present chapter.



**Table 8-24. Latin America:<sup>a</sup> Export Receipts and Investment Income Payments, 1951 to 1960**  
(Millions of dollars)

Year	Exports	Investment income	
		Direct investment income <sup>b</sup>	Others <sup>c</sup>
1951 .....	7,021	-882	-69
1952 .....	6,387	-838	-76
1953 .....	6,940	-789	-107
1954 .....	7,363	-791	-119
1955 .....	7,454	-931	-113
1956 .....	8,072	-1,170	-138
1957 .....	8,265	-1,377	-149
1958 .....	7,750	-1,011	-165
1959 .....	7,736	-886	-223
1960 .....	8,049	-931	-265

Source: International Monetary Fund, *Balance of Payments Yearbook*, vol. 8, 12, 13 and 14.

<sup>a</sup> Excluding Cuba.

<sup>b</sup> Includes reinvested earnings. This is appropriate since changes in exports would affect total direct investment income, all of which is a potential burden on the balance of payments, regardless of what proportion may actually have been transferred.

<sup>c</sup> Includes interest paid on loans not only from foreign private sources but also from foreign official lending institutions.

fact that United States owned direct investment assets in the region, which account for the bulk of the total, almost doubled in the intervening years. It may be noted that, if the proportion of foreign direct investment flowing into sectors catering to the domestic market increases, the link between export receipts and dividend transfers may become weaker and the burden of transferring such income may increase considerably more than in the past decade.

In the years to come, the burden of servicing public and publicly guaranteed debt will certainly increase. The rate of disbursement of long-term loans rose considerably in the latter part of the nineteen fifties

and, while such loans have frequently been granted with grace periods of up to five years, the flow of repayments will necessarily increase as the grace periods finish. A number of developing countries, moreover, have made extensive use in recent years of relatively short-term credits to finance imports, and for these countries debt repayment is expected to rise steeply in the next five years. According to a survey of the IBRD<sup>20</sup> relating to amortization schedules, thirteen developing countries which account for close to half of the total outstanding debt will be repaying over the next five years two-fifths or more of their public external debt. In addition to "long-term" debt, that is, debt repayable over periods exceeding one year, the developing countries have also large outstanding short-term liabilities, which must be settled within a year. Such short-term liabilities amounted to \$4.6 billion at the end of 1962, which was equivalent to 40 per cent of their total gold and foreign exchange assets (see table 8-25).

The targets for the United Nations Development Decade imply a steady rise in the net flow of funds from the developed to the developing countries. If the developed countries were to raise their net capital contribution to the suggested target of one per cent of their combined gross domestic product and were to maintain that rate of resource transfer to the end of the decade, the rising net loan disbursements to the developing countries would result in a doubling of the external public debt by 1970 unless the proportion of donations or grant-like contributions were to increase.

A doubling of the external debt would greatly increase the domestic burden of servicing it. Indeed, the transfer of debt service payments on a debt of

<sup>20</sup> International Bank for Reconstruction and Development, *Economic Growth, Foreign Capital and Debt Servicing Problems of the Developing Countries* (Washington, D.C., 1963).

**Table 8-25. Developing Countries: Outstanding Short-term Foreign Liabilities<sup>a</sup> and Gold and Foreign Exchange Reserves, 1961 and 1962**  
(Millions of dollars)

Region	Short-term liabilities		Gold and foreign exchange reserves	
	1961	1962	1961	1962
Africa .....	451	569	3,580	3,536
Latin America .....	2,832	3,036	3,155	2,710
West Asia .....	350	366	1,344	1,552
Far East .....	554	662	3,817	3,678
TOTAL	4,187	4,632	11,896	11,476

Source: Bureau of General Economic Research and Policies, based on data communicated by International Monetary Fund (Washington, D.C.).

<sup>a</sup> Excluding liabilities in local currencies

arising from sales of United States surplus agricultural commodities, and liabilities to multilateral institutions arising from subscription payments.

that magnitude might be impracticable unless exports were to increase much faster than output in the recipient countries, or unless amortization schedules and interest charges on the new loans were to be made much more favourable than in the past.

The approach to the problem of easing the burden of servicing the external public debt needs to take into account both amortization schedules and interest charges. For the short run, some countries will require consolidation credits to lengthen repayment periods of relatively short-term debt which is repayable within the next few years. A lengthening of grace periods on new loans is also needed to provide debtors a "breathing space" during which old debts may be repaid. At the same time a reduction in interest charges and a lengthening of maturities of new loans will be necessary to improve the composition and reduce the average annual servicing cost of the public debt.

In determining terms, donors have applied the principle that "hard" loans are appropriate for revenue-producing projects, while infra-structure projects require loans on more lenient terms. It is only in the recent past and under the impact of growing external payments difficulties of developing countries that donor countries have begun to take account of the recipient's general economic situation and balance of payments position in determining lending terms.

There has been a natural reluctance on the part of donors to depart from "hard" lending terms. This reluctance has stemmed partly from the cost involved in subsidizing interest rates and partly from a feeling that "soft" terms granted without regard to the nature of the project to be financed might produce distortions in the allocation of resources. In addition, some donor Governments have subsidies, while domestic recipients of government loans continued to be charged the full market rate.

Various suggestions have been made to meet both the recipients' need for loans on more lenient terms, and some of the donors' difficulties or objections. One approach consists of combining "hard" loans for directly productive projects with donations or "soft" loans for other purposes in such a way as to arrive at an average borrowing cost that is within the means of the borrower. However, unless a single donor is involved in the financing of several projects, it would be necessary to co-ordinate the transactions of several donors in order to obtain the appropriate combination of terms. This has been done to some extent under the consortia but an attempt to generalize such arrangements would probably meet with objections from those donor countries which normally provide assistance on relatively easy terms and which would in fact be subsidizing the interest charges of other countries.

Another possibility that has been successfully tried by IDA and AID consists of the granting of loans on "soft" terms to borrowing Governments, which then re-lend the funds on commercial terms for investment in domestic enterprises. In this case, normal interest and amortization are repaid in national currency by the enterprise to the local Government, which in turn transfers to the foreign lender only the amount stipulated under the original loan agreement.

A third method for easing lending terms, one which has been used by the United Kingdom Government, consists basically of a temporary waiver of interest payments under certain conditions set out in the loan agreement. Under this arrangement the waiver of interest payments during a given period has the effect of reducing the total cost of servicing the loan.

Apart from such special arrangements, donors have generally tended towards granting loans with lower interest rates and longer grace periods and maturities. It has been noted earlier in this report that the proportion of loans carrying interest at less than 3 per cent increased substantially from 1961 to 1962; at the same time the proportion granted with maturities of over thirty years also increased.

While measures to ease the financial terms of official loans have begun to show results, the tendency towards excessive short-term borrowing at relatively high interest rates remains a threat to the external solvency of some developing countries. A large part of such borrowing has been in the form of guaranteed export credits. In a majority of donor countries, Governments operate export credit guarantee or insurance schemes.<sup>21</sup> To the exporting countries these facilities are essentially an instrument of export promotion. But the underwriting by Governments of certain export risks facilitates the financing of a given transaction not only for the exporting country but also for the importing country which may not otherwise be able to obtain the necessary accommodation on relatively reasonable terms, especially if it is a developing country. In that sense credit guarantees may be considered a form of assistance. But such credits carry interest at commercial rates to which a premium for the insurance coverage is added. This premium varies with the magnitude and nature of the risks covered, and the credit is for the most part of less than five years' duration, although there has recently been a lengthening in maturities.

Because of the relative scarcity of long-term funds and the inadequate growth of export receipts, a number of developing countries have made extensive use of export credit facilities to finance imports of

<sup>21</sup> For a description of these schemes, see United Nations mimeographed document E/C.5/64.

equipment and materials needed for investment projects. The resulting growth of relatively short-term debt and the relatively high interest charges have aggravated an already difficult debt-servicing problem in the countries concerned. Guaranteeing bodies in evaluating applications for credit have tended to employ criteria which differed from (and were perhaps less rigorous than) those employed by public lending agencies—or for that matter by the same body in its capacity as official lender.

Governments in donor countries, while concerned about the dangerously high level of short-term indebtedness of some developing countries, have been reluctant to intervene in the day-to-day operations of export credit guarantee schemes. However, by determining the guarantee cover available for exports to particular countries, they have been able to place a ceiling on credits to countries approaching the limits of their "creditworthiness". Closer co-ordination of the criteria and operations of official lending agencies and guaranteeing bodies could help check at an early stage the deterioration of the debt-servicing position of some developing countries.

#### CO-ORDINATION OF TRADE AND AID

The decision of the Preparatory Committee to include the co-ordination of trade and aid among the items to be discussed at the Conference on Trade and Development bears witness to the world community's growing concern with this question. Interest in the co-ordination of trade and aid stems from increasing concern with trade expansion and from the realization that, in this field, the effectiveness of official aid and private capital can be especially great. Here, external finance can play a role, the strategic importance of which far exceeds its value as a financial contribution to the over-all capital needs of the developing countries.

There are two aspects to the question of co-ordination of aid with the trade needs of developing countries: the co-ordination of aid with the import requirements of recipients so as to yield the largest volume of real external resources of a kind and on terms that will contribute most effectively to their economic development; and the channelling of aid into activities which will enhance the expansion of their exports. Although the second aspect is, in fact, implicit in the first, it is treated separately and in some detail in the present section because of its special relevance to the Trade Conference.

#### *Aid in relation to imports*

Table 8-13 above has shown that the flow of external resources has increased more rapidly during the past decade than the imports of developing countries. Official bilateral and multilateral contributions

alone have increased from the equivalent of less than 10 per cent of imports in 1951-1955 to some 17 per cent in 1962. As the importance of aid contributions as a source of import finance has grown, certain policies of donor countries and restrictions imposed by them have affected a widening area of the import trade of recipients.

As has been noted before, the majority of donor countries restrict the use of aid contributions with respect to sources of procurement and the outlays to be financed. Procurement restrictions may involve purchases at prices above those of suppliers outside the donor country and even above those of buyers for cash within the donor country itself. Such restrictions may also oblige aid recipients to purchase equipment which is not entirely suited to their needs or which involves unnecessarily high operating costs. Such factors reduce the real benefits from aid and may involve a waste of financial resources. Greater flexibility of procurement procedures would, in these circumstances, make for a better co-ordination of aid with the trade needs of developing countries.

The predominant practice of confining capital aid to identifiable import requirements for investment projects, while understandable from the standpoint of ensuring that funds will not be wastefully employed, has nonetheless failed to take account of certain important trade problems of the recipient countries. For instance, even though the recipients may have no difficulty in financing local costs, the effect of an increase in domestic expenditure on general import requirements may constitute a substantial burden on the country's own foreign exchange resources. While it is clearly desirable that the recipient's own resources should be associated with the financing of a given project, the provision of some additional assistance to finance general import requirements may frequently be necessary to permit the investment to take place.

The concentration on the financing of capital goods imports has also tended to leave out of account special needs, particularly of the industrially more advanced developing countries, for external resources to finance certain elements of circulating capital, including fuels, stocks of imported materials and spare parts for machinery. While short-term credits are usually available for such purposes, countries with an expanding industrial sector may require additional funds on a longer-term basis in order to make full use of their expanding capacity. Facilities to meet this need would be a valuable addition to the existing instruments for development financing.

The provision of technical assistance along with capital aid is yet another way in which the co-ordination of aid in relation to imports may be improved. Materials and equipment are only one com-

ponent of the requirements for an investment project. The efficient use of such imports, both in the implementation phase of a project and in its operation, requires skills which may be scarce in the recipient country. In these circumstances, the provision of technicians and training facilities for local manpower needs to be combined with capital in order to enable the recipients to obtain the best results from the goods supplied to them.

Finally, as already discussed, measures to adapt the financial terms of aid to the recipient's circumstances will render aid more effective and will enable the recipient countries to increase the import capacity of their foreign exchange receipts.

#### *Aid and the expansion of exports*

The importance of aid to the export economy of developing countries resides in the strategic role of exports in economic development. Exports are the main source of foreign exchange and through them the developing countries are able to procure the goods and services required for their economic development and to service their external debt. An acceleration of the growth of exports is therefore crucial to the attainment of their social and economic objectives.

Official grants, loans and technical assistance as well as private investment serve the needs of trade expansion in several ways. They can be employed in the development and expansion of productive capacity in both new and traditional export sectors and in establishing and maintaining foreign markets for the output of these sectors.<sup>22</sup>

In the traditional export sectors of developing countries—the sectors producing primary commodities—private external financing has played a major role in the past in developing export capacity. Since prospective world demand for many primary commodities clearly does not afford an adequate basis for solving the trade problems of these countries, the main emphasis in co-ordinating trade and aid policies has in recent years shifted to other sectors. Nevertheless, some scope remains for various forms of external assistance to traditional export industries, particularly in raising productivity and in assessing the market prospects for particular products.

The Food and Agriculture Organization of the United Nations (FAO) assists the development of export capacity in the field of primary commodities,

notably rubber, coffee and cocoa, meats, hides and skins and forest products and others. The United Nations Special Fund devotes a large proportion of its resources to agricultural development, some of these resources being concerned with export projects. In the mineral field, a particularly important contribution made by external aid is in the search for new resources, as for example, the aid provided by the Special Fund in its various mineral surveys. Aid in the transportation field may similarly contribute to the expansion of trade in primary products. When such projects pass from the survey to the investment stage, the International Bank for Reconstruction and Development (IBRD) may be able to lend massive support. Bilateral programmes of capital aid and technical assistance are making similar contributions to the development of export capacity in the traditional sectors.

When estimating aid requirements for the coming years, however, it is in the field of manufacturing industry that particular emphasis is now being placed by many Governments, particularly in Asia and Latin America. Several Asian countries, for example, are planning for marked increases during the current decade in their non-traditional exports, particularly of manufactures. The Working Party on Economic Development and Planning, reporting to the Economic Commission for Asia and the Far East on the result of its eighth session, noted that although primary exports will remain for some time the major source of foreign exchange and should continue to be promoted, increasingly great emphasis needs to be placed on exports of manufactures.<sup>23</sup> This point of view is shared by the Governments of many Latin American countries and other regions. The focal point of these interests within the United Nations is the Committee for Industrial Development.

It is generally agreed, however, that the industrial field as a whole has not yet received assistance on the scale required for the promotion of exports. The United Nations Special Fund has reported, for example, that very few requests in the field of manufacturing have been received. In the United Nations Expanded Programme of Technical Assistance for 1963-1964, assistance in the manufacturing field as a whole, both export and non-export, accounts for only about 6 per cent of the total programme.<sup>24</sup> Under the United States bilateral programme, only 11 per cent of all technical assistance experts worked in the field of industry and mining; however, the proportion of trainees and fellows from developing

<sup>22</sup> This section does not examine the role of aid in financing the exports of developing countries, a topic which is dealt with in the section of this chapter entitled "Export credit and insurance as an instrument of trade expansion". The present chapter also excludes consideration of the aid component of commodity stabilization schemes and other similar financial benefits that market prices alone would not provide.

<sup>23</sup> United Nations, *Economic Bulletin for Asia and the Far East*, vol. XIV, No. 3 (New York).

<sup>24</sup> Mining is also included. The percentage becomes about 24 per cent if other activities related to industrialization are included, such as general economic planning, energy production, transport, building and industrial relations. See United Nations mimeographed document E/C.5/34/Add.6.

countries who came to the United States for training in industry or the study of industrial problems was considerably larger. Since external assistance can be of great value in helping to promote manufacturing exports, more needs to be done to take full advantage of all the available opportunities.

To ensure that export capacity is developed and utilized as fully as possible, close co-operation between Governments and enterprises engaged in the promotion of exports is necessary. This is true even in the countries most advanced economically, where business enterprises are generally better able than in less developed countries to undertake export promotion independently of government support. In the developing countries, therefore, the need for official trade promotion measures is especially great; although some export products are readily sold abroad, the development and exploitation of markets, especially for new export products, encounters many obstacles, such as unfamiliarity with foreign tastes, trading channels, sales methods and size of market for particular products. Overcoming these obstacles may be a costly matter, involving major expenditures, and the view is sometimes expressed that even the larger developing countries cannot afford expenditures on the scale required. The very magnitude of the problem may discourage some of the less developed countries from taking full advantage of the existing opportunities to promote their export trade. In view of the vital importance to developing countries of expanding their exports, the use of financial aid and technical assistance in support of trade promotion activities needs to be encouraged.

Such support, particularly in the form of technical assistance, can be of considerable value to developing countries in organizing official trade promotion services, in formulating policies to promote export trade and in implementing the policy measures adopted by Governments. Support can be given, on the basis of experience gained in developed countries, to the development of market research services for seeking out opportunities for export sales, not only of industries already in existence, but also of potential industries which are the subject of pre-investment surveys. In addition, support can be given to the establishment of information services which give guidance to export enterprises in designing products and packaging, in maintaining control over standards of quality, in the choice of marketing channels, in the selection of sales methods, and in the provision of information regarding shipping and customs procedures.

The Governments, as well as the larger export enterprises and state trading organizations, of developed countries have considerable experience in these fields, and much of this experience can readily be adapted to serve the needs of developing countries,

as has been demonstrated by the successful technical and financial assistance rendered in the past. Nevertheless, such assistance has limitations which need to be recognized; it pertains mainly to operations of a purely technical nature, while success in trade promotion depends not merely on the use of efficient techniques but also on the initiative and drive of exporters and of the government services supporting them.

The various United Nations programmes of technical assistance provide, at government request, expert advisers and fellowships in the field of trade promotion. Occasional assistance is also provided under the United Nations Programme for Operational and Executive Personnel (OPEX), which enables foreign experts to serve within the government services of developing countries. In addition, a number of regional and inter-regional training and advisory projects have been proposed.

Support to trade promotion activities of countries in their regions ranks high among the activities of all the regional economic commissions of the United Nations. The GATT, in co-operation with the United Nations programmes of technical assistance, is also active in this field. Support to trade promotion activities is also provided under bilateral programmes, but comprehensive information is not available concerning the magnitude of such aid. Some Governments have noted, however, that fewer requests for technical assistance in trade promotion were received than had been anticipated.

#### *Aid for promoting tourism*

International tourist expenditures, currently amounting to about \$8 billion a year, are the largest single item in world trade and are growing markedly as income levels rise. Although at present these expenditures are made mainly in developed areas, it is recognized that their growth and magnitude afford opportunities to many developing countries for improving their balance of payments positions and promoting the growth of new domestic industries. The extent to which developing countries can take advantage of these opportunities could be increased if their intensified planning efforts and investments in these fields were supplemented, as appropriate, with financial and technical aid from abroad. This is partly because the long-run development of the tourist industry in many localities requires substantial investment in transportation facilities and buildings which cannot readily be financed from domestic sources, and partly because many developing countries lack personnel experienced in promoting the development of tourism.

Nearly all developing countries need external assistance to supplement their own efforts in formu-

lating and implementing plans and policies directed to the realization of their tourist potential.<sup>25</sup> This assistance, both technical and financial, can be of great value at various stages in the promotion of the tourist industry.

Such assistance is provided to developing countries, at their request, under the Regular and Expanded Programmes of Technical Assistance of the United Nations. Under these programmes, experts are provided to survey the possibilities for the growth of tourism and to formulate proposals for action for consideration by the Government concerned. Similar support is also available under bilateral assistance programmes, sometimes in combination with those of multilateral agencies. Assistance to developing countries in co-operating among themselves in the field of tourism is provided by the regional economic commissions of the United Nations.

In its final report, the United Nations Conference on International Travel and Tourism, held in August-September 1963, emphasized the inadequacy of the volume of resources now being devoted to the promotion of tourism in the developing countries, including the volume of international aid now being allocated to this field. It recommended, in the latter connexion, that Governments of developing countries take more initiative in seeking such assistance and that steps be taken to enable donor agencies and countries to expand their programmes accordingly.

<sup>25</sup> See the final report of the United Nations Conference on International Travel and Tourism (mimeographed document E/3839), annex IV, paragraph 82.

## Promotion of the international flow of private capital

The United Nations target for the transfer of resources from developed to developing countries covers not only official funds but also private long-term loans and investments. At the request of the General Assembly and the Economic and Social Council, the Secretary-General has kept the question of the promotion of the international flow of private capital to developing countries continuously under review.<sup>26</sup> The present section therefore confines itself to a brief review of the main issues and policies in this field and particularly to examining the role of financial institutions in mobilizing and channelling the flow of private capital for investment

<sup>26</sup> The resolutions most relevant in this connexion are General Assembly resolutions 824 (IX), 1035 (XI), 1318 (XIII) and 1522 (XV), and Economic and Social Council resolutions 762 (XXIX), 780 (XXX), 836 (XXXII) and 922 (XXXIV).

### *Means of co-ordination at the general policy level*

To achieve better co-ordination between trade and aid, it is necessary for the various national and international bodies concerned with the giving and receiving of aid to have at their disposal both adequate machinery for arriving at mutually consistent and constructive decisions and adequate information on which to base policy decisions concerning the issues involved.

There is need for adequate co-ordination machinery both within the Governments of developing countries and among the agencies and Governments supplying aid for trade expansion. Good co-ordination at the latter level is indispensable, but the key role in co-ordination rests with the Governments of developing countries. It is these Governments which are responsible for formulating and implementing national trade expansion policies and for requesting the kinds and amounts of aid required in support of these policies.

To facilitate co-ordination among Governments and agencies it would be helpful to have periodic surveys concerning the activities of developing countries in the expansion of export capacity and in the promotion of trade and tourism, and of the volume and nature of the financial aid and technical assistance devoted to the support of these activities. In addition to comprehensive surveys evaluating progress in adapting aid to trade needs, it would be useful to have a number of case studies in depth based on the experience of particular countries. In this connexion, a start has already been made by the GATT, which has recently undertaken a programme of country studies aimed at illuminating the co-ordination problems affecting trade and aid.

in developing countries and the measures taken or proposed, both in developed and developing countries, to encourage private enterprise to take a more active part in promoting the external financing of economic development.<sup>27</sup>

### PROBLEMS AND ISSUES

While the flow of private capital increased substantially during the nineteen fifties, it has declined

<sup>27</sup> Fuller discussion may be found in the series of periodic reports by the Secretary-General on "The Promotion of the International Flow of Private Capital" (*Official Records of the Economic and Social Council, Twenty-ninth Session, Annexes*, agenda items 2 and 5, document E/3325 (1960); *ibid.*, *Thirty-second Session, Annexes*, agenda items 2 and 5, document E/3492 (1961); document E/3665/Rev.1 (1962) and document E/3905 to be submitted to the thirty-seventh session of the Economic and Social Council (1964)).

in recent years. This lag is chiefly attributable to a slackening of investment in export industries, especially in the petroleum and other mining sectors where capital repatriation took place in the period 1960-1962. Although private investment in other sectors expanded, the increase was not sufficient to offset this decline, at a time when the demands for foreign capital are being constantly increased by the requirements of expanding development programmes. In the face of this widening gap between increasing need and over-all effective supply of private capital, governments and international agencies, as well as interested private institutions, have sought to expand both the geographic coverage and the range of techniques and instrumentalities which might be employed to tap more effectively the resources of the capital markets of developed countries, by encouraging direct as well as portfolio investments.

These efforts are necessarily predicated on three assumptions: that the expected rate of return on invested capital (and its repatriation) can be as attractive as in developed countries; that there are enough worthwhile investment opportunities matured to the point where investment decision and implementation can be effectively made, that is, enough projects which have been studied, prepared and presented in such terms that they can be readily examined and, if accepted, carried out, and that government policies and implementing laws and regulations in the capital receiving countries provide a climate reassuring enough to overcome the natural preference of foreign investors, on grounds of security, for ventures at home or in other developed countries.

While it may be said that these assumptions and conditions are by now clearly understood, it is less certain that means have as yet been developed, or at least widely applied, to satisfy all of them. This is partly due to the very real difficulties which stand in the way of coping with some of the more complex problems. These include, on the one hand, the identification and preparation of "bankable" projects and, on the other, such factors as rising national consciousness, foreign currency shortages resulting from accelerated development programmes and increasing pressure by a labour force with rising expectations.

The available means for overcoming the obstacles outlined above may, for the purposes of the present analysis, be divided into two (somewhat overlapping) groups, one consisting of financial institutions which serve to mobilize and direct private foreign capital to private and public development projects, the other covering a wide range of economic, legal and administrative measures which are designed to provide special facilities or attractions for such investments and

to remove specific obstacles in their way, chiefly by offering protection against non-business risks.

#### THE ROLE OF FINANCIAL INSTITUTIONS

In recent years, the mobilization of foreign private capital for investment in developing countries through international or national development finance institutions has taken on significant proportions.

Among the international institutions this development is most striking in the case of the IBRD and is beginning to become a substantial factor also in the more recently established Inter-American Development Bank. The techniques used by these institutions for drawing on the resources of the private capital markets are the floatation of the institutions' bonds, the sale of maturities from their portfolios to private investors and joint financing of projects with private investors.

In the case of the IBRD, bond issues in the capital markets have provided, up to mid-1963, \$2.5 billion and the sale of loan maturities a further \$1.6 billion. The funds raised by these means have thus amounted to \$4.1 billion,<sup>28</sup> while loan disbursements during the same period have totalled \$5.4 billion, of which \$3.3 billion were lent to developing and \$2.1 billion to developed countries. The Inter-American Development Bank has so far raised by these means a total of more than \$150 million, as compared to total approved loans as of 31 December 1963 of \$390 million out of its ordinary resources.

In addition to international organizations, a number of financial institutions in developed countries have entered the field of development financing in the private sector. Such institutions may be subsidiaries of private banks (such as the Edge Act corporations in the United States) specializing in foreign business activities, public institutions (like the Commonwealth Development Corporation in the United Kingdom) or mixed institutions (like the French investment trust COFIMER). More recently, other capital supplying countries have established such institutions, for example, the government financed Overseas Economic Co-operation Fund (1960) in Japan and the medium-term (1959) and long-term (1962) Export Financing Pools in Belgium grouping the major interested government agencies and private banks. In some cases, even government public aid financing has resorted partly to the capital market for its funds by specific borrowing for this purpose.

In addition to the facilities provided by these financial institutions, export credits for the purchase

<sup>28</sup> This figure does include a portion of the IBRD bonds now held by governments or central banks which may or may not have been the original suppliers of the funds received by the IBRD, but which may, in any case, resell them at any time to the general public.



of industrial machinery have played a growing role as a source of financing industrial equipment. In recent years, the amount of net export credits to developing countries guaranteed by government sponsored insurance institutions has averaged over \$400 million, compared to an annual net average of \$200 million in the period 1950-1955.<sup>29</sup>

In the developing countries a wide range of development banks and development finance corporations have been established, either as government, mixed or private institutions, often with the participation (through equity or loan investment) of foreign banks and international institutions. A typical example of such diverse financing is the case of the Industrial Credit and Investment Corporation of India (ICICI), a wholly privately owned institution whose initial paid-up capital of 50 million rupees in 1955 was subscribed for 72 per cent in India by insurance companies, banks and private investors, 18 per cent in the United Kingdom, chiefly by the Commonwealth Development Corporation and private banks, 6 per cent and 4 per cent, respectively, in the United States and the Federal Republic of Germany, chiefly by private banks. Its capital was supplemented by initial loans from the Indian Government and the IBRD, which have since been followed by larger loans from the same sources, and by loans from the United States and the Federal Republic of Germany government aid agencies.

In recent years, the IBRD and especially its affiliate the International Finance Corporation have systematically promoted the establishment and strengthening of such development banks.<sup>30</sup>

These development banks have three main functions: to mobilize both domestic and foreign private capital investment; to provide an effective channel for public funds to private industry, and to prospect and assist in working out investment opportunities. In their activities, these financial institutions—national (from developed and developing countries) and international, public and private—are acting more and more in association with each other and with direct investors under ever new forms, including underwriting, joint loans and investment consortia, both in major extractive ventures, such as the LAMCO joint venture (iron ore extraction) in Liberia with public and private financing from the United States, private capital from Sweden and public capital from the Federal Republic of Ger-

many, and in medium-sized industries, such as the Industria del Hierro, S.A. (heavy construction equipment) in Mexico, financed by the IFC, the IDB and Mexican and French public agencies and private firms.

It may be said that the various institutional arrangements discussed above constitute a major attempt to resolve the three main difficulties described earlier as restraints on the flow of private capital to developing countries.

These institutions provide a special expertise and, through their local connexions, a special facility for identifying and developing worthwhile investment projects, as well as for seeking out suitable foreign business firms able to act as the sole or joint entrepreneur to carry out the venture.

Their sponsorship of such projects and especially their financial participation serve to allay the apprehension of the foreign private investors with regard not only to the specific project, but especially to general investment conditions in a country about whose policies the investors usually know little. At the same time, their intervention may make the role of the foreign investor more readily acceptable to the host country, especially by adjusting the form and scope of his participation to the particular requirements of the government or domestic enterprise, for example, by arranging for joint foreign-domestic ventures, or for the contribution of foreign know-how through a contractual arrangement without equity participation.<sup>31</sup>

The guarantee function of the institution is, of course, predominant where the private investor's dealings are exclusively with the institution, as in the case of the non-entrepreneurial investor who purchases the bonds of the IBRD, the Inter-American Development Bank or of some responsible national institution. In this way, these institutions make an essential contribution to expanding the capital market as a source of additional funds for development projects.

#### ECONOMIC, LEGAL AND ADMINISTRATIVE MEASURES

Governments of developing and developed countries, which are interested in stimulating an increased flow of private capital to developing countries, have at their disposal, and have increasingly used, various measures to meet the desiderata and apprehensions of private investors, within the framework of their own needs and policies.

<sup>29</sup> For a fuller discussion of this subject, see United Nations, "The Promotion of the International Flow of Private Capital" (mimeographed document E/3905), chapter VI.

<sup>30</sup> Regional development banks, such as the Central American Economic Integration Bank (and presumably the African Development Bank and the proposed Asian Development Bank), serve similar intermediary functions in channelling funds to both public and private recipients.

<sup>31</sup> For a comprehensive discussion of the various forms of such contractual arrangements currently being developed in the international field, see United Nations, "The Promotion of the International Flow of Private Capital" (document E/3492, 1961), chapter I.



*Investment promotion*

A first category of measures is concerned with the identification and promotion of worthwhile investment projects whose relative dearth continues to act as a major limiting factor on private foreign investment. A number of countries have established so-called investment promotion centres at home and abroad which have the task of finding out and developing appropriate investment projects and searching out likely foreign (and domestic) entrepreneurs and other investors, including development finance institutions. Often these centres assume also the task of assisting the entrepreneur in the implementation of the project, for instance, through detailed information on investment and market conditions, in steering him through administrative formalities and negotiations, in finding a proper location for the plant, and the like.

The value of investment promotion depends in part upon the extent to which the promotion function is co-ordinated with a development plan, so that it can follow the order of priorities established therein. In certain cases this function is in fact assigned to the planning organization, in others, it is part of the functions of the development bank.

The effectiveness of the promotion agency is in large measure conditioned upon its initiative in finding projects and investors (rather than waiting for applications) and upon its ability to recognize and meet the needs of the investor. Where such an agency originates and develops a project and secures the active participation in its implementation of a foreign firm which had not previously been looking for investment opportunities in that particular country, the resulting foreign capital inflow can be directly traced and credited to this specific investment promotion technique—which can only rarely be done with most of the other known techniques.

Because of their familiarity with the requirements and habits of investors, Governments of capital supplying countries can be particularly effective in the investment promotion service. In effect, the Governments of several capital supplying countries, which have a policy of favouring investments in developing countries by their nationals, have established facilities to inform potential investors on general business conditions as well as on specific investment opportunities in developing countries. As an example, the United States Agency for International Development maintains a punch-card catalogue of investment opportunities, which currently provides detailed information on some one thousand specific projects in more than eighty developing countries; interested investors can secure AID financing for up to 50 per cent of the costs of feasibility studies for these or other promising ventures.

Closely tied in with the above functions is the provision of physical and financial facilities for new ventures. Thus, a number of central and local governments in developing countries have provided so-called industrial estates (often located in priority areas, away from already established industrial centres)<sup>32</sup> which provide plant space, or even buildings, utility lines, transport facilities, etc., generally at advantageous prices and credit terms.

*Tax incentives*

Tax incentives are perhaps the oldest form of investment promotion measures. Today, practically all developing countries offer financial incentives in the form of tax concessions. These typically consist in the reduction of, or exemption from, tariffs on the import requirements of the enterprise, as well as exception from income taxes, both on the profits of the enterprise and on the dividends received by the investors, and in provisions for reinvestment credits or accelerated depreciation allowances.

For the foreign investor, broad tax exemption offers, usually incorporated in special investment promotion laws which manifest the government's favourable attitude towards private (and private foreign) enterprises, may dramatize, and thus arouse interest in, investment opportunities which might not otherwise attract attention. Where the exemptions result in a substantial increase in net profits—for example, through an extended "tax holiday"—they sharply reduce the pay-back period and thus the initial risk inherent in a long-range investment; alternatively, they permit the expansion of an enterprise through self-financing without the need for fresh capital. Customs concessions, in turn, allow a venture to be started with a smaller initial investment by reducing the cost of imported plant and equipment needed to establish the enterprise, and at the same time increase the profits by reducing the depreciation charges.

Yet, in gauging the potential value and thus the possible effectiveness of such concession offers, it must be realized that a foreign investor's profit projections for a future venture cannot be very accurate, so that the difference in the expected rate of return resulting from concessions, especially on low-rate taxes, are likely to be of an order of magnitude well within the unavoidably wide margin of error.

Moreover, since most broad concessions are granted for a limited period only, the investor must also consider the normal tax burdens under which he will have to operate after the expiration of the concessions. For this reason he may be more at-

<sup>32</sup> United Nations, *Establishment of Industrial Estates in Under-developed Countries* (Sales No.: 60.II.B.4).

tracted by a well-balanced tax system geared to a reasonable rate level than by special tax exemptions and reductions. From the government's point of view, extensive exemptions, especially from the income tax, impair the revenue structure by decreasing tax revenue needed for financing development programmes, and by undermining the equity of the tax structure and thereby its acceptability to the taxpayer at large.

Tax concession schemes, therefore, would appear to be appropriate chiefly for an early stage of industrialization, where the industrial sector is not yet a major factor in the economy, while the tax system is likely to be particularly burdensome on industry: major indirect taxes, such as import duties, internal excises and export duties may hit hard the operation and products of the very industries to be promoted, while direct taxes are likely to discriminate against entrepreneurial profits which can be more readily assessed than other incomes which may, moreover, be exempt in some tax systems, for example, as capital gains. To a potential investor such a defective tax system may be less of a deterrent if he will not become subject to it until after he has had a chance substantially to recover his initial investment under the protection of tax exemptions—the more so if there is reasonable expectation of tangible progress in the improvement of the tax system during that period.

As the industrialization process advances, limited concessions intended to influence investment practices, such as the above-mentioned investment and accelerated depreciation allowances, may retain their place in a more development-oriented tax system, as the corresponding advances in tax administration will allow these more refined tax-burden differentials to become fully effective.

Whatever the tax incentive scheme, its proper coverage presents a major problem, since the concessions cannot be granted to all enterprises. All the laws, therefore, are selective and aim at limiting the concessions to those enterprises which have a high development priority. In some countries a two-category system is in force under which limited tax concessions are granted automatically to well-defined groups or lists of industries, while a broader range of tax concessions is available for top priority investments which qualify on the basis of an individual evaluation.

The selection of favoured enterprises will be the more purposeful where the Government has a development programme which permits the establishment of at least broad priority classifications that can be incorporated into the tax concession law.

Even the broadest tax concessions are outweighed in value to the investor by the grant of a protective

tariff for his product. While this is not the place for examining the advantages and dangers of granting such protection to infant industries, the fact must be noted that they remain the most eagerly sought after and the most frequently granted of all investment incentives in the developing countries.

The popularity of the tax concession technique has also spread to the developed countries, a number of which have sought to encourage foreign investment by their nationals, either in general or in developing countries only, by giving more favourable tax treatment (for example, through special investment allowances) to the profits derived from these investments than to equivalent amounts of profits from domestic investment.

Over the years, there has been considerable support for more far-reaching tax concessions by the capital-supplying countries on the part of interested business circles as well as of the Governments of some developing countries anxious to increase the flow of foreign investment. It may, however, be doubted whether even outright tax exemption for foreign investment profits earned in developing countries would provide a significant additional stimulus, since most of these profits (especially if they are retained abroad) are already largely relieved from tax liability in the developed countries, partly by the latter's existing rules of tax jurisdiction (which in most countries exclude profits earned by foreign subsidiaries or permanent establishments), and partly by their far-reaching unilateral and treaty concessions for the elimination of double taxation through tax credit or outright tax exemption.<sup>33</sup>

#### *Protection of foreign investments*

Complementing the economic and financial measures designed to attract and facilitate foreign investments, a series of techniques is being used for the purpose of eliminating apprehensions of non-business risks. These apprehensions relate chiefly to possible government interference with, or expropriation of, the investor's business or to such contingencies as non-convertibility, wars and civil disorders. Governments of both capital receiving

<sup>33</sup> See United Nations, "Taxation in Capital-Exporting and Capital-Importing Countries of Foreign Private Investment" (document E/2865, 1956), paragraph 29; also "The Promotion of the International Flow of Private Capital—Progress Report" (E/3325, 1960), paragraph 145, where it was noted that the United States Treasury had estimated its annual tax revenue from United States direct investments abroad at \$240 million in 1959, which at that time corresponded to less than one per cent of the total value of such investments (\$29.7 million) and less than 8 per cent of the annual income therefrom (\$3.3 billion)—while the corporate tax rate was 52 per cent (see United States Department of Commerce, *Survey of Current Business* (Washington, D.C.), September 1960, pages 18 and 20.

and capital supplying countries have sought, through individual and joint measures, to provide assurances to investors which are directed either towards avoiding the occurrence of these risks or towards redress of the resulting loss.

Assurances by Governments of capital receiving countries regarding their future policies and conduct have been incorporated into formal policy statements, individual concession agreements, investment laws and even constitutional texts.

Efforts have been made to give these assurances the force of international obligations through their incorporation into bilateral agreements between Governments of capital supplying and capital receiving countries. The, as yet, very limited geographical scope of these agreements has led to proposals for the conclusion of multilateral investment charters.<sup>34</sup>

However, in view of the manifold obstacles in the way of securing widespread agreement on international rules defining the substantive rights of foreign investors, increasing interest is being directed by both governments and investors to the possibility of protecting the latter, if not against the occurrence of non-business risks, at least against their consequences. Here, investment insurance provided by the investor's home government can constitute an effective guarantee against non-business losses. Such insurance schemes are now in effect in the United States, the Federal Republic of Germany and Japan, and cover expropriation, inconvertibility and losses from war and insurrection.

Insurance recovery for the loss of his investment resulting from an act of the host government offers the investor only a last resort, since the primary interest of the investor, as of the government, will normally be to permit the continued operation of the enterprise. A report of the

<sup>34</sup> The most active of these is the Draft Convention on the Protection of Foreign Property, now pending before the Council of the Organisation for Economic Co-operation and Development (OECD publication No. 15,637, December 1962).

Secretary-General of the United Nations<sup>35</sup> reviewed this problem and referred to the role which could be played in this context by the creation of an independent international arbitration and conciliation facility with members drawn from both capital supplying and capital receiving countries, for the settlement of investment disputes. The results of an enquiry undertaken by the Secretary-General among member Governments showed widespread interest in this possibility.<sup>36</sup> The existence of such a facility, especially when it is coupled with the agreement of a government to place future investment disputes before it, may well constitute one of the most effective reassurances to prospective investors in such a country. A number of developing countries already provide for international arbitration of investment disputes in concession agreements, investment laws and bilateral treaties.

The International Bank for Reconstruction and Development has recently prepared a draft text for the conciliation and arbitration of international investment disputes, which has been discussed with representatives of its member governments at four regional meetings organized with the co-operation of the secretariats of the Regional Economic Commissions of the United Nations. It is expected that the Executive Directors' conclusions and recommendations on this matter will be submitted to this year's meeting of the Bank's Board of Governors.<sup>37</sup>

While the effectiveness of most government measures discussed above can be evaluated only in the most indirect way, experience shows that in cases where these measures have been implemented smoothly and have been coupled with sound economic policy, they can contribute significantly to the creation of a favourable investment climate.

<sup>35</sup> United Nations, "Promotion of the International Flow of Private Capital—Progress Report" (document E/3325, 1960), paragraph 207.

<sup>36</sup> *Ibid.*—Further Report (document E/3492, 1961), paragraph 286 ff.

<sup>37</sup> See International Bank for Reconstruction and Development, *Summary Proceedings, 1963, Annual Meeting of the Board of Governors* (Washington, D.C., 1964), page 14.

## Export credit and insurance as an instrument of trade expansion

The importance of export credit in the system of international financing has long been recognized in the developed countries of the world. The establishment of public institutions for export credit was one of the methods adopted by several industrialized countries, including the United States, the United Kingdom and the Federal Republic of Germany, to meet the problems of the disruption of international

financing markets during the late nineteen twenties and early nineteen thirties. After the Second World War, however, export credits assumed unprecedented importance. The industrialized countries were trying to recover the lost markets and explore and conquer new ones. Sufficient alternative sources of international funds were often lacking and the emphasis on expanding export credit facilities was, of course, the natural consequence.

In recent years, export credit has acquired special significance for the developing countries in the context of their drive for export promotion. In their attempts to increase exports, especially of non-traditional items such as consumer manufactures, light engineering and capital goods, these countries face severe competition in the world market and this competition is not confined to price and quality only. In most cases, the quantum of sales in the international market depends on the facilities for deferred payments. For the importer, suppliers' credit may often be the chief, if not the only, available source of finance, particularly if he belongs to another developing country and is importing consumer manufactures or capital goods. Consequently, the payment terms become a crucial part of the contract, in addition to price and quality, and competition in the field of export credit becomes as important as pure price or quality competition.

The significance of this element of non-price competition in the export market is hard to exaggerate, particularly for the developing countries trying to increase the exports of capital goods. Owing to an enormous increase in the output of capital goods, importers appear to be in a strong position in the buyers' market for obtaining credit from the exporters of capital goods. In some developing countries facing balance of payments difficulties, the ease with which import licences can be obtained is often a function of how liberal the terms of deferred payment are. In a market such as this, it is only natural for severe competition to set in where exporters make competitive credit offers to push their sales and offer liberal credit terms with assistance from their Governments, sometimes even to compensate for unattractive prices and quality.

The severeness of export-credit competition has been recognized in the developed countries for some time. As early as 1954, Mr. Black, President of the IBRD, noted: "The situation is becoming serious . . . too much credit given, under the pressure of competition, sometimes on inappropriate terms and for the wrong purposes . . . so a race is developing, a race in which none of the competitors can win because the faster each one goes, the faster will all the others go." For the developing countries, this "competitive credit race" poses more serious problems. To run such a race would entail bearing a heavy burden in terms of resources and the acceptance of severe risks which few developing countries can afford to assume. They need the help of the developed countries to overcome this handicap. The developed exporting countries, being aware of the dangers of a credit race, formed the Berne Union for consultation and exchange of information on export credits, and it would be helpful if the developing countries could participate in this activity,

so that the developing and developed countries could co-ordinate with each other their export credit policies.<sup>38</sup>

Export credit is, of course, only one of several important instruments of export promotion and it will be most effective if it is used in conjunction with other measures as part of an integrated trade policy. For instance, liberal credit facilities alone cannot be of much help in the long run if the costs of export goods from the developing countries remain high, prices excessive and quality and deliveries uncertain. If cheap credit were allowed to encourage production in inefficient lines, it might distort the cost and production structure of the economy, making other commodities more expensive, and the immediate gains of export earnings might be more than offset by losses over an extended period.

But, on the other hand, the production of manufactures, capital goods or intermediate products is often subject to strong economies of large-scale production and the prospects of a large market may actually be conducive to a reduction of costs and prices. Accordingly, liberal credit facilities may help the developing countries realize their potential efficiency either through the provision of the existing markets, or by exploring and winning new markets or special kinds of pre-shipment financing. Indeed, of the various instruments for export promotion, liberal export credit may be the most important.

#### TYPES AND SOURCE OF EXPORT CREDIT

Export credit may be classified according to (a) the period of its duration or (b) the stage at which it is provided. Credit can be given for a short term, when it generally implies "accommodation" for a period not exceeding six months, or for a medium term covering a period of more than six months but not exceeding five years, or sometimes for a long term involving a period of more than five years. On the other hand, credit to finance an export contract may be granted for the whole interval between the beginning of production and the final payment by the importer or for some stages within this interval. Credit extended for financing the costs incurred in the first stage of this interval ending with shipment of the goods is known as "pre-shipment" credit or "pre-financing". The financing of export goods from the stage of shipment to the date of realization abroad is called "post-shipment" credit. Pre-financing may be extended to cover the costs of manufacture and processing of the goods, or the preparation and

<sup>38</sup> It may be noted that at the regional level, the European Economic Community and the Latin American countries have been trying for some time to agree to some uniformity in export credit conditions, and to co-ordinate, through appropriate regional institutions, their export credit policies.

packaging of goods before shipment, or even the promotion of sales abroad and the study of the export market. It may also finance the maintenance of inventories of export goods.

Up till now most of the facilities for export financing in the developing countries have been confined to short-term credit. For exports of primary products, credit for a period of less than six months may be considered adequate, and generally the commercial banks in the developing countries provide this credit, though often at a very high cost. But such credit facilities are inadequate to finance exports of manufactures and especially machinery and durable goods. The production cycle of these goods is frequently quite long and it is often necessary to make large investments in the purchase and processing of materials at the beginning of production. Also, capital goods yield their fruit with a time lag and the importers can pay interest and amortization out of returns from the investment only after a lapse of time. Thus, for both pre-shipment and post-shipment export credit for capital goods and durable manufactures, repayment periods of more than six months are necessary. In such cases short-term credits have often been made to serve the purpose of medium-term credits through repeated renewals. But this will become increasingly unsatisfactory as exports of machinery and durable goods expand and the need for extended payment terms grows.

Recent changes in the structure of exports and credit needs have revealed the shortcomings of the customary sources of export finance in the developing countries. Pre-financing of the costs of the production period of export goods, such as machinery and consumer durables, is much like providing normal working capital finance. The exporting firm generally secures such finance through the customary forms of short-term accommodation, including cash credits, loans or overdrafts against its floating assets and other collaterals. Seldom is a distinction made between production for the domestic and export market, and the high rates charged for ordinary overdrafts may impair the export's competitive position. Moreover, the length of the production period of these goods often strains the financial position of the exporter by raising the debt/sales ratio and reducing the borrowing powers of the firm for development and other purposes. These problems are intensified in the case of post-shipment credit, which normally covers the larger part of the period of an export contract if the exporter finances the transaction from his own resources, or from credit obtained on his own security. Credit granted to the purchaser after the shipment of goods acceptable to the purchaser actually finances investment in the foreign country and is a pure finance credit which the manufacturing firm is normally not equipped to provide.

Further, if the exporter appears as the primary obliger in the credit transaction, the granting of credit will depend more on the creditworthiness of the exporter than on the soundness of the project or the importer's ability to pay.

Even when export credit takes the form of selling or discounting the promissory notes issued by the foreign customers, or other paper, the predominant source of such finance, up till now, in the developing countries is the commercial bank. For example, in India, between 1957 and 1961, more than 80 per cent of annual exports was financed by export credits accommodated by the commercial banks. But while the commercial banks have largely met the credit needs of traditional lines of export, their effectiveness in providing medium or long-term credit for new lines of exports in new markets is limited, since the provision of such credit is outside their usual sphere of activities. Moreover, it is easier for the banks to transact business in the traditional markets because they have long established contacts who can advise them on the prospects and risks of a project. But uncertainty about the stability of the market, the payments position of the foreign country, the financial prospect of the project and about the creditworthiness of the importer is very much enhanced when the business is new and the market is unfamiliar. These factors, combined with a general lack of loanable funds and a pressing demand even for short-term credit, have worked towards shortening credit terms and raising the cost of credit. Often, the decisive factor for securing medium-term credit has been the size of the order and not the nature of the goods exported, as the complexity and cost of the process have discouraged banks from arranging medium-term finance for small orders. Moreover, only large orders generally carry the guarantee from the importing country's Government and the bargaining power of the importer to extract deferred payment terms is also closely related to the size of the order. This is an additional disadvantage for the developing countries, for seldom it is possible for exporters of new products to secure sufficiently large orders.<sup>39</sup>

#### MEASURES TO INCREASE THE FACILITIES

Several developing countries, realizing the urgent need for longer-term credits to finance exports of manufactures, including capital goods and consumer

<sup>39</sup> Another factor, a banking convention, contributes to the inadequacy of commercial banks as a source of export finance. It is often the practice of the banks to grant export credit on the basis of the f.o.b. value, which is frequently lower than the domestic price of the products. Thus, the credit which an exporter gets is much less than what he can secure by hypothecating the goods for sale in the domestic market.

durables, and the inadequacy of the existing financial institutions to meet that need, have adopted various measures to that end. One such measure is the establishment of export credit insurance systems, which is discussed below. Other measures are directed towards reforming the institutional arrangements for granting export credit, notably the provision of refinancing facilities for export credits by some existing institution. For instance, in India, the Refinance Corporation for Industry decided to extend the scope of its operation by taking up refinancing of medium-term export credits especially for exports of capital or engineering goods. It is also possible to arrange for the Central Bank to provide funds for export credit to commercial banks at a rate below bank rate. Indeed, this possibility of recourse to the Central Bank allows for an element of qualitative control to influence the availability and cost of credit for particular kinds of exports.

Some developing countries have set up specialized institutions for granting export credit. The basic function of such institutions is to secure, directly or through commercial banks, export finance through the discounting of credit instruments that are generally of medium-term maturity. For instance, the Mexican Government set up in 1963 the Mexican Manufactured Products Export Development Fund to provide rediscount facilities for documents drawn against foreign importers of durable goods with credit terms ranging from six months to five years. Brazil set up machinery in 1961 to provide medium and long-term finance for exports of capital and durable consumer goods. The Central Bank of Argentina introduced in 1962 a special credit system for financing exports of non-traditional products and decided to buy bills of exchange derived from these exports on terms of less than five years.

The appeal of the idea of national organs for the provision of export finance arises not only from the inadequacy of the existing institutions. It is also felt that the drive for exports from the developing countries is a continuous process; while in the course of this drive new problems will arise, new risks will have to be assumed and speedy adjustments will have to be made in the context of over-all programmes for development. For this, organs with specialized knowledge and experience are required which will be guided by the long view and will be flexible in their operation but amenable to public control. Such agencies should also have powers to co-ordinate the export-credit policy of the other existing institutions to ensure the legitimate and uniform use of export credit, to determine the eligibility of credit instruments in use and to decide which exports are to be favoured with credits and on what terms. Since they have to depend on

the State for most of their finance, such agencies are generally set up on a public or semi-public basis with the authority to extend the guarantee of the State.

In most developed countries, such national agencies of export finance generally depend on the State as their source of funds. The capital market has, on the whole, played a minor role in western Europe, with the exception of Belgium and the Netherlands. In the developing countries where floating capital waiting to be invested is by no means plentiful, there is little scope for raising funds for such an export finance agency on the capital market.

The paucity of funds will naturally influence the mode of operation of a national agency of export finance. First, it has to be very selective in granting credit to different export projects in order to put its limited funds to most effective use from the point of view of broader long-run development prospects. Accordingly, it has been suggested that its accommodation be confined only to exports of capital and/or durable consumer goods. Traditional exports of primary products and non-durable consumer goods normally require short-term financing and carry lower financial costs involving lesser risks which the commercial banks can provide; and since trade in these items constitutes a very large proportion of the total international trade of the developing countries, its financing would absorb an unduly substantial part of the limited resources available. The reduction of cost of credit for these goods, which is quite high in most developing countries,<sup>40</sup> could be facilitated through additional guarantees and risk insurance. Secondly, maximum effort has to be made to tap all the possible sources of funds and to mobilize the importer, the exporter and the credit institutions to finance an export contract. The national export credit agency may require the payment by the importer of a definite proportion of the value of the contract as a condition for the granting of any accommodation. For instance, Argentina, Brazil and Mexico all require the importer to make a 20 per cent down payment of the value of exports before their credit institutions extend a medium-term credit.

The exporter may then secure finance for the remaining part of the value of the transaction by discounting the credit instruments of the importer. This can be done either with the national agency or with the commercial banks, which might in turn rediscount the papers with the national agency. To mobilize the money market as much as possible,

<sup>40</sup> For instance, in India, the cost of short-term finance is 6.5 to 9 per cent, while the comparable cost in the United Kingdom is 5 to 5.75 per cent, in the United States 3 to 3.37 per cent and in Japan 4.75 to 5.48 per cent. See Government of India, Report of Study Group on Export Finance (New Delhi), page 24.

the banks need to be encouraged to retain in portfolio a part of these export-credit documents. How far the exporter himself should contribute to the financing of exports is a matter of judgement. But it is generally assumed that the exporter should share some of the commercial risk of about 15 to 20 per cent as a stake in the success of the credit transaction.

Such a method of mobilizing funds for export credit draws on a combination of sources of finance, such as bank credit, monetary savings and money creation when recourse is had to the Central Bank as a last resort, as is common procedure in financing internal investment. But although part of an export credit transaction of the pre-shipment variety has the character of working capital finance, the larger part of it actually serves to finance investment in the foreign country. In granting post-shipment export credit, a country in effect exports capital and has to face serious foreign exchange problems.<sup>41</sup> This is particularly important for the developing countries facing balance of payments difficulties as they cannot compete in this respect on equal terms with the developed nations. It is not to be expected that the national export credit agencies will be able to command any significant amount of external finance, in addition to what is already tapped by the other domestic investment agencies, though efforts may need to be made in that direction. There would thus seem to be a need for some multilateral arrangements for export financing to assist the developing countries to re-finance part of the export credit furnished to the exporter.

The Inter-American Development Bank (IDB) has elaborated a scheme for the financing of intra-Latin American exports of capital goods which is the first of its kind. On 30 September 1963, procedures necessary for such a programme were formally adopted. The techniques of operation contemplated by the IDB programme are three: (a) to grant global loans to the national agencies of the exporting countries, which would use the proceeds to discount the notes issued by the importers to the

order of the exporters; (b) to purchase documents issued by the national agencies, which would discount the importers' credit documents furnished by the exporters, and (c) to rediscount directly the importers' credit documents guaranteed by the national agency of the exporting country. Consideration might well be given to the need for similar arrangements for the developing regions of Asia and Africa.

#### PROTECTION AGAINST RISKS IN EXPORT FINANCE

A complement to the introduction of measures for liberal export credit facilities is the provision of insurance against risks for export credit. In most industrialized countries, credit insurance has become an integral part of the mechanism of export finance, particularly of the medium-term variety. Insurance has almost become a condition for receiving any kind of accommodation in export finance and the terms of its policy largely determine the nature and cost of credit granted. The addition of the signature of an insurance institution to those of the parties to the export transaction greatly improves the quality of the export paper and the financing institutions become more willing to have these papers in their portfolios. The premium charges are of course a cost item of export credit but they are almost invariably less than the high compensation for risk that would otherwise be implicit in the interest cost of the credit.

#### *Nature of the risks*

The risks involved in export finance are generally classified into two broad groups: (a) commercial risks, and (b) political and transfer risks. The general distinguishing feature is that political and transfer risks affect the whole country or the export sector, whereas ordinary commercial risks relate only to an individual transaction.

Commercial risks proper are associated with the probable default of the importer, which can occur even before the acceptance of the goods if the buyer refuses to accept delivery or pay under cash-against-document payments terms. Normally, this risk is not very severe in the case of traditional exports, but may be so for exports of manufacture and capital goods that are relatively new and not so familiar to the importer. But the risks of non-payment after the acceptance of the goods because of the insolvency of the buyer, or protracted default on payments by him are the most severe. It is generally agreed that a protracted default should be considered sufficient for making an insurance claim and that insolvency of the buyer should not be necessary. In practice, the insurance institutions generally pay claims on the basis of protracted default, though they may ask the exporter to share some of the burden.

<sup>41</sup> Export credit granted to the domestic exporter in domestic currency does not, in itself, drain foreign exchange but postpones the receipt of foreign exchange, the credit item of export being matched by a debit item of non-liquid claims on foreigners. These claims are not currently available to pay for an increase in imports. If the increase in exports is not followed by an increase in imports, the over-all balance of payments is unaffected. But an increase in exports, without policy controls, will in general increase imports. This "import impact of exports" will entail a loss of foreign exchange, without a corresponding gain from exports, if these are financed by export credit. Although down payments by the importer will reduce the burden, and so will amortization and interest payments in the subsequent years, the exporting country will, in the beginning, face foreign exchange problems.



There is another kind of export risk—sometimes called economic risk—which is connected basically with the transfer risk, but may affect some individual transactions in particular. For instance, if price and cost of production in terms of wages, materials, and so on increase, but the exchange rate does not change to reflect the increase in domestic prices, and if the export contract quotes a firm price in a stable currency, then for some exports the losses may be quite heavy, especially in the case of a medium or long-term contract. Sometimes it is possible to insert in the contract an escalator clause relating the price of exports to the cost of materials or wages. But more often, when a fixed price is quoted, the risk of loss can be serious enough.

Political and transfer risks proper affect the payments due to all the exporters from the buyers of a given country because of delay or prevention of transfer of payments arising from shortage of foreign exchange, economic difficulties in the buyers' country, the imposition of import restrictions or export prohibitions or general embargoes, or catastrophes like war, flood, earthquakes, revolutions or strikes. In individual contracts with a foreign government or foreign public corporation, default on payments or arbitrary cancellation of orders are also regarded as political risks. An actuarial basis for the insurance of political and transfer risks is hard to conceive. A satisfactory spread of such risks is also not always possible, particularly when the transactions take several years to be completed. But these are the risks which are in fact most important and severe to the exporters, for no matter how prudent the exporter is and how co-operative and sound a businessman his buyer may be, these risks are wholly beyond their control.

*The role of the state and operation of some existing systems*

There seems to be general agreement that in the case of insurance against political and transfer risks the Government should play an active role even in the developed countries. Losses or financial strain on the enormous scale that may result from events involving such risks are capable of being insured only with government backing, though the form of this backing may vary widely. But some developed countries have left the commercial risks to be insured mainly by private undertakings. Through a careful process of setting premiums and apportioning risks, and by relying on a combination of past experience and current credit ratings of the individual concerns, a private insurance company covering the commercial risks can sometimes function with profit if the business is large and varied enough to make a satisfactory spread of risks possible.

At present, there are several insurance companies covering commercial risks in Belgium, France, the Federal Republic of Germany, the Netherlands, and the United Kingdom and others. In the United Kingdom, most of the insurance of export credit risks, both commercial and political, is done through the government department called the Export Credits Guarantee Department. In fact, credit insurance has been available in the United Kingdom as a government service since the nineteen twenties. Its appeal was not very wide at first when its cover was limited only to the risk of the buyer's insolvency. In the nineteen thirties, when the risks of transfer delay came under its insurance cover, this Department's scale of operations was substantially enlarged. In Canada, the export-credit insurance agency is a public corporation, with capital provided wholly by the Government. But in the Federal Republic of Germany, insurance of all risks, including political and transfer risks, is provided on behalf of the State by a private company, acting as commission agent for these transactions. Reinsurance by the State or by a government-controlled agency of part of the risks underwritten by private companies is the prevailing arrangement in some countries such as Belgium and Norway.

In the developing countries, mechanisms for insurance of export credit risks have not yet developed on any wide scale, though several countries are making studies and preparations for introducing them. In the few countries in which such insurance is available, it is limited in general to short-term export credits, though attempts are made to extend it to medium-term credit also. It is almost always controlled or operated by the State. In India, the Export Risks Insurance Corporation is an autonomous public corporation owned by the Government, though there are several private individual members representing the business community in its directorate. Its liability is normally limited to 85 per cent of the loss in the case of political risks and to 80 per cent in the case of commercial risks.<sup>42</sup> The Israel Foreign Risks Insurance Corporation is also a public body with its capital wholly subscribed by the Government, and it covers 75 per cent of the loss when it is due to insolvency or protracted delay of the buyer, and 85 per cent of it in all other cases. Both in India and Israel, the available insurance is still generally

<sup>42</sup> It is normal custom that the policy-holder is made to bear a part of the risk, whether "political" or "commercial" and thus to retain a vested interest in his risk, though generally the margin that is not covered is smaller in the case of "political" risk than in the case of "commercial" risks. For instance, the Export Credit Guarantee Department of the United Kingdom insures "political risks" up to 95 per cent, but commercial risks only up to 85 per cent. A similar scheme in France covers 80 to 90 per cent of the loss from political risks, but only 65 to 80 per cent of that from commercial risks.



limited to export credits, mostly granted for a short term to exporters in the traditional lines of consumer goods and staple products. But in Israel, the cover generally extends to the post-shipment period of the credit, while in India, the insurance agency issues "contract policies" that cover the pre-shipment risks too.<sup>43</sup> In Brazil, the Ministry of Finance, the Brazilian Reinsurance Institute and other interested insurance companies participate in the Consortium of Export Credit Insurers. The private insurance companies can reinsure with the Brazilian Reinsurance Institute which can transfer political risks to the Ministry of Finance. The insurance covers up to 75 per cent of the loss, in the case of commercial risks, but up to 80 per cent in the case of political risks. The Mexican Manufactured Products Export Development Funds, another government institution, also issues insurance policies covering 90 per cent of the political risks.

As the developing countries expand their exports of manufactures, including capital goods and consumer durables which have to be financed increasingly by medium or long-term export credits, the need for insurance schemes covering this type of credit will become increasingly important. Since new lines of exports, because of unfamiliarity with the market and absence of any established convention, will always involve greater risks, private insurance companies may be unwilling to underwrite such risks. In that event the operation of schemes to cover both political and commercial risks by the State would be necessary.

On some occasions the insurance agencies may have to suffer losses, when the premium incomes fail to compensate for the excess of payments over recoveries and other costs of operation. But the major problem of export-credit insurance is not so much of actual losses as of lack of liquidity. The final losses after the gradual liquidation of frozen credits may not be very substantial. In fact, the records of most of the credit insurance systems show that the amounts that had to be written off as irrecoverable were generally not very significant. But the insurer must be able to meet payments on claims long before the collection of credits can be realized or face a substantial drain in the liquid reserves. If he finds it difficult and expensive to borrow to maintain his reserves, the insurer will have to charge high-premium rates so that he can break even in a fairly short period. But the State can ultimately have recourse to its own borrowing capacity and

charge a premium low enough to break even over a reasonably long period.

### *Spread of risks and the form of insurance*

An export-credit insurance agency, if it is to keep the cost of insurance low without letting its operations degenerate into a form of export subsidization, has to adopt methods of operation that will improve the quality of the risks and increase the volume of business. The facilities of a public insurance corporation should be available to anyone who may apply for them, but it would need to control the risks it insures through careful scrutiny and by attaching such conditions in premiums, percentage, coverage, and so forth as may be considered appropriate. For most companies, therefore, the specialized function that is the key to their success is that of the underwriter who is responsible for fixing the terms and conditions of all contracts of insurance, quoting the appropriate premium rates and establishing the credit limits that determine the liability assumed by the company. The type of policy issued or the form of insurance offered in an individual case has to be related to the over-all structure of risks. There are several factors, such as the commodity composition of exports, spread of liabilities, rate of turnover and the maturity periods that determine the structure of risks and the methods of operation of an insurance company. These will vary from country to country and it is not within the scope of this report to go into the technical details. But one special problem with respect to the spread of risks is worth considering, since it has assumed particular importance in the working of the existing insurance agencies.

This is a problem of determining the form of insurance, whether it should cover a single transaction or the whole turnover of exports of the exporter. From the standpoint of the insurer interested in a sizable volume of business and the maximum spread of risks, insurance of the whole turnover of business of the exporter with all the countries with no separate cover for political and transfer or commercial risks is more desirable. The concentration of the insurer's risks on a few countries sharply increases the margin of risk since a freezing of credits in any of these countries may upset the whole business. Similarly, unless all types of risks, whether political or commercial, of the whole turnover of exports are insured, the volume of insurance will tend to be reduced to the dubious cases only, and the insurer will be left with only the "sick" patients of trade. For the exporter the benefit of such a cover is of course primarily a low over-all cost of insurance. But the exporter who trades with stable markets or with firms whose financial position is unquestionably

<sup>43</sup> A special feature of the Indian system is the "Packing Credit Policy" issued in favour of the lending bank at a nominal premium to let the exporter obtain pre-shipment finance for processing and packing of goods, somewhat above the line of the bank's normal rating of the client. This policy is in the nature of a credit guarantee and the risk is evenly shared by the bank and the insurance company.

sound would like to have cover against political and transfer risks only. He may feel he could save on insurance cost by limiting cover according to his choice. In fact it is sometimes charged that the policy for total export turnover keeps the cost of insurance low for trade in riskier transactions with less stable markets at the expense of trade involving limited risk with stable markets, in the manner of a tax to redistribute the burden. When the same exporter is involved in trade with both stable and unstable markets, the incidence of such a tax may coincide with its benefits. But quite often this is not the case, and for the developing countries this may give rise to severe problems. The traditional exporters with established lines of business with well-known foreign firms may have no reason for accepting cover for commercial risks; and as the bulk of their trade is with the developed countries, they may not be willing to secure cover for transfer risks. Insistence on insurance of all export credit may lead these firms to dispense with insurance altogether. In that event the volume of business for the insurance agency may actually be reduced by a requirement of whole turnover insurance.

Very few insurance agencies go to the extreme of compulsory insurance of all export credits; but the Export Credit Guarantee Department in the United Kingdom is fairly strict about this. An exporter wishing to insure short-term and medium-term credits is required to insure his entire short-term turnover with all countries, or at least with an agreed group of markets, but is not required to do so for medium-term credits, though special preferences will be granted to him if he does. The comparable arrangement in the Federal Republic of Germany does not insist on "whole turnover insurance", even for short-term business, but follows an incentive system offering global policies at lower rates. The choice of risks and

markets to be insured is left to the exporter who may obtain single transaction policies if he wishes. The scheme in operation in France is agreeable to covering political and transfer risks only if the importer can provide from his bank a guarantee of his solvency. Among the developing countries, the Export Risks Insurance Corporation of India favours the "whole turnover insurance" but does not insist on this and issues specific policies on selected markets to help the exporter meet special obligations. The Israeli Agency insists on policies covering all consumer goods exported. But for capital goods exports which are expected to grow in the future, it recognizes that the whole turnover cover is not appropriate and that each contract of sale has to be insured separately with a policy related to the special terms of the contract.

In conclusion, it may be noted that in the context of proposals for international refinancing of export credit for the developing countries, the growth of an export-credit insurance system in the developing countries can be of special significance. The backing of the national insurance agency improves the quality of credit documents, facilitating not only national financing but also international refinancing. If, for some reason, an importer or importing country defaults on such payments, the obligations of the debtor would be transferred to the exporter who could fall back on the insurance agency. The risks of the international refinancing organ would thus be substantially reduced and limited to the remote contingency of suspension of payments simultaneously in both importing and exporting countries. Further, with this support of the national insurance agency to the quality of export credit instruments in its portfolio, the international refinancing organ would find it much easier to mobilize the necessary financial resources.

## Economic aid and technical assistance of centrally planned economies to developing market economies<sup>44</sup>

This review of economic assistance of the centrally planned economies to the developing countries and of its impact on the economies of the donor as well as the recipient countries is limited by the lack of comprehensive data on annual credit disbursements. Although the credit flows take mainly the form of shipments of goods and are, therefore, reflected in the trade transactions between the donor and recipient countries, data on trade balances between the credit-

receiving and credit-extending countries do not provide accurate information on these flows, because part of their mutual trade may have been settled in convertible currency. The only comprehensive information on economic aid of the centrally planned economies relates to credit commitments based on a variety of sources from the donor as well as from the recipient country.

### THE VOLUME OF CREDITS GRANTED

The available information on credit commitments of the centrally planned to developing countries, indicated in table 8-26, shows that, during the period

<sup>44</sup> For the purpose of this chapter, the centrally planned economies include Bulgaria, mainland China, Czechoslovakia, Eastern Germany, Hungary, Poland, Romania and the Soviet Union. The developing countries are exclusive of Cuba.

beginning in 1954—when the first significant credits were granted to developing countries—and ending in 1962, the total of credits and grants amounted to \$4.6 billion. The largest share of this total, about 70 per cent, was extended by the Union of Soviet Socialist Republics. The credits extended by the other European centrally planned economies amounted to 24 per cent of the total, and those of mainland China to 6 per cent. Among the European centrally planned economies other than the Soviet Union, the largest credits were extended by Czechoslovakia, with 10 per cent of the total, followed by Poland with over 6 per cent, Hungary with 3 per cent, and Romania and Eastern Germany with 2 per cent each. The information on changes in commitments over time indicates that credit commitments first became significant in 1956-1957 and continued

rising with an interruption only in 1960 until they reached a peak of \$1.1 billion in 1961. In 1962, however, new credit commitments appear to have fallen to \$429 million, according to the available information relating to that year. It should be noted that the actual decline in new commitments may have been smaller, since the data for 1962 are less complete than the information available for the preceding years.

While little is known about the actual flows of credits from the centrally planned economies to the developing countries, some qualitative and quantitative information provides certain indications of the relationship between commitments and disbursements of credits. The fact that most of the credits are used for delivery of machinery and equipment indicated

**Table 8-26. Centrally Planned Economies: Commitments of Bilateral Economic Assistance to Developing Countries, 1960-1962<sup>a</sup>**

(Millions of dollars)<sup>b</sup>

Country	Total before 1960 <sup>c</sup>	1960	1961	1962
By donor:				
Bulgaria .....	—	—	180	—
China (mainland) .....	145	46	51	51
Czechoslovakia .....	210	59	208	1
Eastern Germany .....	29	—	61	6
Hungary .....	—	17	124	—
Poland .....	54	71	59	88
Romania .....	11	—	50	50
Union of Soviet Socialist Republics	1,880	484	555	233
TOTAL, all donor countries	2,327	677	1,126	429
By recipient:				
<i>Africa</i>				
Algeria .....	—	2	—	—
Ethiopia .....	101	—	12	—
Ghana .....	—	40	131	—
Guinea .....	35	50	10	25
Mali .....	—	—	66	7
Morocco .....	—	—	—	12
Somalia .....	—	—	74	13
Sudan .....	—	—	22	3
Tunisia .....	—	10	38	—
United Arab Republic .....	357	15	302	26
TOTAL	493	117	655	86
<i>Latin America</i>				
Argentina .....	109	—	—	—
Brazil .....	—	—	200	—
TOTAL	109	—	200	—
<i>West Asia</i>				
Iran .....	6	—	—	—
Iraq .....	138	69	—	—
Syria .....	193	22	—	30
Yemen .....	42	—	—	—
TOTAL	379	91	—	30

Table 8-26 (continued)

Country	Total before 1960 <sup>a</sup>	1960	1961	1962
<i>Far East</i>				
Afghanistan .....	185	—	—	200
Burma .....	10	—	86	4
Cambodia .....	29	—	11	2
Ceylon .....	57	12	—	11
India .....	764	155	48	34
Indonesia .....	273	280	96	50
Laos .....	—	—	—	12
Nepal .....	23	20	—	—
Pakistan .....	3	—	30	—
TOTAL	1,344	467	271	313
TOTAL, all recipient countries	2,327	677	1,126	429

Source: Bureau of General Economic Research and Policies of the United Nations Secretariat, based on: *Bulletin Inostranoi Kommercheskoi Informatsii, Dengi i Kredit*, No. 6, 1962 (Moscow); V. Rimalov, *Economic Co-operation Between the Union of Soviet Socialist Republics and Under-developed Countries* (Moscow, 1962); Artur Bodnar, *Gospodarka Europejskich Krajow Socjalistycznych* (Warsaw, 1962); *Far Eastern Economic Review*, No. 3, 1961, and other official and unofficial information.

<sup>a</sup> The data in this table and in table 8-27 are rough estimates based upon incomplete information. The figures refer only to the amounts of credits and grants specified in individual announcements and may differ from data relating to total aid extended to, or received by, each country or group of countries. The data shown in table 8-26 differ somewhat

from those presented in table 12 of United Nations, *International Flow of Long-term Capital and Official Donations, 1959-1961* (Sales No.: 63.II.D.2). The differences are due partly to revisions made necessary in the light of additional and more precise information and partly to the exclusion of Yugoslavia from the group of donor countries, and of Cuba, Cyprus and Turkey from the group of recipient countries. These changes in coverage help to improve the comparability of the data for 1962 with those of the earlier years.

<sup>b</sup> National currencies converted into dollars at official rates of exchange.

<sup>c</sup> Cumulative total since 1954, the first year in which economic assistance to under-developed countries was granted; excluding credits and grants extended but known to have been subsequently cancelled or allowed to expire.

that the bulk of each credit are disbursed at the time when the basic construction work is sufficiently advanced to proceed with the installation of machinery and equipment. The share of construction in total investment in a given project and the time required for its completion are obviously not identical for all projects. In consequence, the time span of a credit agreement will vary considerably, depending on the size of the project, the delays involved in the preparatory work and surveys, and in many instances, on the timing and the ability of the credit-receiving country to organize those aspects of construction work which are to be executed by the use of internal resources. In most cases the disbursement period has lasted five to seven years from the beginning of deliveries to the completion of the project.

According to a rough estimate, the total disbursements of economic grants and credits to the developing countries between 1954 and 1962 were within the range of one-quarter to one-third of total commitments. It is obvious that the share of disbursements in total credit commitments at any given time is influenced not only by the time span separating the extension and utilization of credits, but also by the

rate of growth of commitments. Thus, the concentration of large commitments during recent years would naturally result in a lowering of the ratio of disbursements to total commitments.

An indication of disbursements of credits granted by the Soviet Union to the developing countries can be derived from the data on exports of complete plants and installations to these countries. The major part of these exports undoubtedly represents shipments financed by long-term credits, although they may also include transactions financed by commercial credits and cash payments. On the other hand, these data may account for only a part of the credit flows which, in addition to complete plants and installations, also cover deliveries of other goods and services. Thus, while the difference between the actual credit flows and the data on shipments of complete plants and installations cannot be assessed, it does not seem to be of such magnitude as to invalidate the broad conclusions regarding the relationship between commitments and disbursements which can be derived from this comparison.

The available data on Soviet exports of complete plants and installations to fourteen developing

countries<sup>45</sup> indicate an increase from \$1.1 million in 1955 to \$111 million in 1958. During the two following years these exports fell to about \$65 million, but in 1961 they rose to \$136 million and in 1962 reached an all-time peak of \$183 million. The data on exports of complete plants and installations show an even greater degree of concentration on a limited number of countries than those on credit commitments. Thus, India absorbed about 49 per cent of total Soviet exports of complete plants and installations to the developing countries, the United Arab Republic 18 per cent, Afghanistan 14 per cent, Iraq 8 per cent, and Indonesia, Syria and Guinea 3.4 per cent, 2.5 per cent and 2.7 per cent, respectively. The seven remaining countries accounted for less than one per cent each.

It is significant that the share of the developing countries in total Soviet exports of complete plants and installations rose from about 3 per cent in 1956 to 35 per cent in 1958. In 1959 and 1960 it fell to some 12 per cent of the total, and in 1961 and 1962 rose to about 40 and 45 per cent respectively. The total value of Soviet exports of complete plants and installations to the developing countries amounted to \$617 million between 1955 and 1962, or about 23 per cent of credit commitments to the countries covered by these data, and to 20 per cent of total credit commitments to the developing countries. Their relationship, however, varied considerably among countries. The deliveries of complete plants and installations amounted to about 37 per cent of credit commitments to India, 29 per cent in Guinea, 27 per cent in Iraq and 20 to 22 per cent in Yemen, the United Arab Republic and Afghanistan. In Pakistan, the deliveries amounted to 11 per cent of commitments; in Mali and Indonesia, to 7 and 6 per cent, respectively, and in Ghana, to about 3 per cent.

Official information on credit commitments and disbursements is available only for two developing countries: India and Ceylon. As shown by the data reproduced in table 8-27, about 28 per cent of credit commitments extended by the centrally planned economies to India in 1956 to 1962 were disbursed. Nearly all of this was accounted for by Soviet credit disbursements which amounted to about 32 per cent of total Soviet commitments to India during this period. The information on credits extended and disbursed by the centrally planned economies to Ceylon indicates that over 36 per cent of total com-

**Table 8-27. Commitments and Utilization of Credit Granted by the Centrally Planned Economies to India and Ceylon**

(Millions of dollars)

Item	Commitments	Utilization
<i>Credits granted to India, 1956-1962</i>		
Czechoslovakia .....	48.3	—
Poland .....	62.6	1.0
USSR .....	806.3	257.2
TOTAL	917.2	258.2
<i>Credits granted to Ceylon, 1956-1963</i>		
Mainland China .....	36.3 <sup>a</sup>	8.9
Poland .....	8.0	0.7
USSR .....	30.0	17.6
TOTAL	74.8 <sup>a</sup>	27.2

Source: Ceylon, Ministry of Finance, *Economic and Social Progress, 1956-1963* (Colombo) page 90; and India, *Economic Survey, 1962-1963* (New Delhi).

<sup>a</sup> Of this amount, \$26.3 million represents grants.

mitments were disbursed up to July 1963. The share of disbursements in credits extended by the Soviet Union amounted to about 59 per cent, that of mainland China to 24 per cent and that of Poland to about 8 per cent.

In addition to long-term credits and grants, and to commercial credits about which little information is available, the centrally planned economies have extended aid to the developing countries indirectly, through their contributions to the funds of various United Nations agencies such as the Expanded Programme of Technical Assistance (EPTA), United Nations Children's Fund (UNICEF), and United Nations Special Fund. The contributions to other agencies are not directly related to foreign aid, and the funds allocated to the United Nations regular technical assistance programme are financed from the global contributions to the regular United Nations budget and are not indicated by contributing countries. The contributions of the centrally planned economies to the three agencies mentioned above, during recent years, are shown in table 8-28.

#### RELATIONSHIP TO DEVELOPMENT OF TRADE OF THE CENTRALLY PLANNED ECONOMIES

The information on past trends in the growth of credit commitments of the centrally planned economies to the developing countries does not provide any indication of the future development of this aid. The rapid growth from the very low level in the initial period and the significant fluctuations during recent years were influenced by various political and economic factors and were not related system-

<sup>45</sup> The data on exports of complete plants and installations are indicated separately only for Afghanistan, Ceylon, Ghana, Guinea, India, Indonesia, Iran, Iraq, Mali, Pakistan, Somalia, Syria, United Arab Republic and Yemen. The shipment of complete plants to other credit receiving countries either were not listed separately or were non-existent, the credits being used for purchases of equipment and machinery rather than for complete plants and installations.

Table 8-28. Contributions of the Centrally Planned Economies to EPTA, UNSF, and UNICEF<sup>a</sup>

Item	1960	1961	1962
<i>Amount in thousands of dollars by contributing country</i>			
Bulgaria .....	36.8	36.8	24.9
Czechoslovakia .....	173.5	173.5	190.9
Hungary .....	98.1	108.8	108.8
Poland .....	250.1	285.0	285.2
Romania .....	58.4	58.4	58.4
USSR <sup>b</sup> .....	2,962.5	4,387.5	4,387.5
TOTAL	3,579.4	5,050.0	5,055.7
<i>Percentage distribution by recipient</i>			
EPTA .....	39	52	51
UNSF .....	40	29	29
UNICEF .....	21	20	20

Source: United Nations, Economic and Social Council Official Records.

<sup>a</sup> Abbreviations refer to the following agencies: EPTA, Expanded Programme of Technical Assistance; UNSF, United Nations Special Fund, and UNICEF, United Nations Children's Fund.

<sup>b</sup> Including contributions of the Byelorussian and Ukrainian Soviet Socialist Republics.

atically with changes in such aggregates as national income or foreign trade. Apart from general willingness to extend assistance to the developing countries and the requests for aid presented to the centrally planned countries, the volume of commitments may depend on the capacity of specific branches of industry in the centrally planned economies and the domestic requirements for their output. This dependence is largely due to the fact that the credits to the developing countries are not offered in convertible currency but in deliveries of goods produced by the donor country. As the bulk of the aid takes the form of shipments of machinery and equipment, the possibilities of granting aid are more specifically linked with the capacity of machine and metal working industries, and the domestic requirements for investment goods produced by these industries.

In view of the continuously high level of demand for investment goods characteristic of the centrally planned economies, the granting of aid by diverting scarce resources from domestic uses may have the consequence of affecting the rate of domestic investment and over-all growth of output in these countries. The situation in this respect may at times differ from that in some market economies where, if there is unemployment, the foreign demand generated by aid to the developing countries, by stimulating total effective demand, may lead to increased utilization of idle resources. In conditions of full

utilization of resources which prevail in the centrally planned economies, the shipment of goods associated with long-term credits reduces the supply of commodities available for domestic uses, and, therefore, has a certain decelerating effect on the rate of economic expansion. This effect has thus far not been of great importance, since aid to the developing countries has represented only a small fraction of national income of the centrally planned economies. Its impact on growth rates has, however, been more significant than might appear from its ratio to national income. This impact may be more effectively measured by relating the aid to domestic investment. Thus, for instance, the annual average of credit commitments of the Soviet Union in 1960 and 1961 was of the order of 1.5 per cent of the average gross fixed investment during the same period and, together with its credit commitments to the other centrally planned economies, it amounted to about 3.5 per cent of investment. The ratio of actual flows to fixed investment was obviously much smaller.

Although neither the profit motive nor the demand-inducing effect of foreign aid enters into the consideration of the centrally planned economies, some economic factors do play a certain part in the determination of foreign aid policy.

Almost all economic aid of the centrally planned economies to the developing countries is provided in the form of credits, while grants account for only a limited proportion of the total. The official motivation for this form of aid is that the credits offered by the centrally planned economies represent arrangements beneficial to both contracting parties, and they therefore provide a more solid and adequate basis for mutually satisfactory arrangements. This aspect of the foreign aid policy has been frequently emphasized by the authorities of the centrally planned economies.

Among the purely economic considerations encouraging the expansion of foreign credits may be the desire to promote increasing foreign trade and to secure higher imports from the primary producing countries in the future. The granting of long-term credits creates a favourable climate for the expansion of trade. Not only does the construction of enterprises and the delivery of machinery and equipment on credit create a market for replacement parts and possibly stimulate cash purchases of investment goods, but the repayment of credits will also finance a return flow of imports in the future. The development of such bilateral trade movements increases the possibility of expanding imports without a commensurate increase in convertible currency expenditure.

Owing to the need of the developing countries for complete installations or large individual purchases

of equipment, it would be quite impracticable to achieve the same effect on trade without credits, by balancing current exports of investment goods to each country against current imports from that country. While the importance of these economic factors cannot be assessed, there is no doubt that they do, to some extent, reduce the high opportunity cost of foreign aid extended by the centrally planned economies to the developing countries.

It has already been stated that no indications are available on future aid policy of the centrally planned economies. It should be added that the volume of future credits for the developing countries need not be closely predetermined in the process of preparing the long-term plans for production and foreign trade. The integration of production, allocation and trade plans does not imply that only the existing trade and aid agreements are allowed for when the plans are drawn up and that this automatically precludes trade and aid commitments involving subsequent readjustment in the allocation of domestic resources.

Although trade relations between the centrally planned economies are increasingly integrated with their long-term production plans, hardly any of the trade or aid agreements signed with the developing countries have coincided with the preparation of the long or medium-term plans. Furthermore, in view of the relative size of the aid programme, the modifications in production or trade plans required to meet new commitments are not of such magnitude as to create insurmountable difficulties. Finally, all plans provide to an increasing extent for the formation of certain reserves which are intended to create conditions for greater flexibility in the allocation of resources; these may also include provisions for future assistance to the developing countries. Since the long-term plans undergo continuous readjustments in the process of their implementation, the establishment of long-term plans of economic development in a certain period cannot be considered as an obstacle to providing credits to the developing countries at a subsequent date. The increased international co-ordination of the production and trade plans of the Council of Mutual Economic Assistance (CMEA) countries does not alter this conclusion.

#### IMPACT UPON DEVELOPING COUNTRIES

Although the credits of the centrally planned economies represented a relatively small proportion of total credit and grant commitments extended by all donor countries to the developing countries, the impact of such aid on the economy of the recipient countries was much more significant than its share in total aid would suggest because of its concentration on a limited number of developing countries. The growth effect of these credits was considerably

enhanced by the fact that in most cases they were directed towards the expansion of investment goods industries, and that they were closely associated with extensive manpower training with a view to enabling nationals of the recipient country to take over the construction and management of future projects.

The data on the distribution of credits among the recipient countries indicate a very high concentration of aid on a limited number of countries. Altogether the aid of the CMEA countries was extended to over thirty developing countries. In Asia thirteen countries have received economic and technical assistance from the centrally planned economies; in Africa aid was granted to ten countries, and in Latin America to two. However, 72 per cent of the volume of credits granted to Asian developing countries was extended to three countries, Afghanistan, India and Indonesia. More than 50 per cent of total credits allocated to Africa were extended to the United Arab Republic. The four countries just mentioned accounted for over 60 per cent of all credits granted by the centrally planned economies to the developing countries between 1954 and 1962.

The impact of the aid extended by the centrally planned economies on the receiving countries cannot be adequately assessed owing to inadequate information. According to Soviet sources, the country's credit commitments to the United Arab Republic in 1958-1962 covered about 15 per cent of the foreign exchange requirements for the Republic's five-year plan. The Soviet credit commitments to India represented about 12 per cent of the total investment in industry scheduled for India's third five-year plan of 1961-1966. The credit commitments of the Soviet Union to Afghanistan were reported to cover about one-third of the total investment during the latter country's first five-year plan and are scheduled to cover half of the total investment during the second five-year plan.

While the total credit commitments of the centrally planned economies to the developing countries represented a relatively small share of the total credits and grants received from all sources, in some cases this participation was quite high. Thus, according to Soviet sources, the credit commitments of the centrally planned economies to Guinea amounted to 85 per cent of all credits extended to that country in 1960-1963, and those offered to Ceylon represented 35 per cent of all credits received until 1961. The credits committed by the Soviet Union to the United Arab Republic for the years 1958-1962 accounted for 30 per cent of the credits received by that country during the same period. According to Indian official sources, the share of the centrally planned economies in total credits and grants (inclusive of United States grain deliveries and development loans repayable in rupees) amounted, up to the end of

1962, to 11.4 per cent, and disbursement to 5.4 per cent. The share of the centrally planned economies in total loans extended to India amounted to 21.4 per cent of all commitments and their disbursement amounted to 11.2 per cent of all disbursements.

The loans of the centrally planned economies to the developing countries have as a rule been granted for the construction of several projects at a time, and the typical amounts of individual loans have ranged between \$40 million and \$100 million. This was particularly the case for the loans granted by the Soviet Union, while those offered by other centrally planned economies were generally smaller. The individual loans granted by the Soviet Union to India, Indonesia and the United Arab Republic provided for lines of credit amounting to \$150 million to \$250 million.

The credits extended by the centrally planned economies to the developing countries covered the construction of a large variety of projects. According to a communiqué of the CMEA, more than half of the resources put at the disposal of the developing countries by the member countries of the CMEA have been used for the construction of enterprises in heavy industry and power generation. About 35 per cent of credits were used for power stations, metallurgical plants and the coal industry, and 25 per cent of credits were allocated to the chemical industry, oil refineries, engineering and building materials industries. The remaining credits were utilized to finance the construction of transport and communications facilities, geological surveys, prospecting, the construction of enterprises in light and food industries as well as of scientific, medical and educational institutions and housing. According to the aforementioned communiqué, the capacity of power stations built with the aid of the CMEA countries amounted to 5.2 million kilowatts or about one-third of the capacity existing in the countries in which they were built. The capacity of metallurgical plants constructed with the assistance of the centrally planned economies is expected to increase by 3.5 million tons of steel, thus doubling the existing capacity of publicly owned steel plants. The capacity of oil refineries built with the assistance of the centrally planned economies amounts to 10 million tons of oil, that is, over 50 per cent of the available capacity in the assisted countries. The capacity of new cement factories is equal to about 2.5 million tons, which represents 12.7 per cent of the capacity already installed.

#### CREDIT TERMS AND CONDITIONS

The credits granted by the centrally planned economies to the developing countries are based exclusively on bilateral agreements providing for delivery of goods and services by the creditor country,

and for repayment generally in commodity exports, but in some cases also in local currency or in convertible currency. While the possibility of repayment in domestic currency or in traditional exports represents an obvious advantage to the developing countries, the fact that all the credits are offered in the form of goods and services delivered by the donor country may raise certain problems which, however, are not peculiar to the aid of the centrally planned economies. One of the problems raised is that of the bilateral nature of credit arrangements. It has been pointed out that this form of credit, similar to the tied credits extended by the developed market economies, obliges the recipient country to utilize the credit by purchasing the required goods and services exclusively from the donor country. In the case of the centrally planned economies, credits are earmarked for shipment of clearly defined goods and services. They are, in fact, determined by the value of goods which a given donor country is willing and able to deliver to the recipient country. This form of aid, therefore, restrains the freedom of the receiving country with respect to the utilization of credits, as regards both the type of goods to be imported and the country of supply. It may also have a restraining effect on the volume of credit offered by any given country, by reducing it to the amount of goods which the donor country is able to deliver to the recipient country. Thus, a centrally planned country ready to offer credit to a developing country may not be able to secure the required goods which are more readily available in another centrally planned economy, and may thus be inhibited from extending the credit. This problem has been overcome in certain cases by the use of the productive facilities of the other centrally planned economies as subcontractors in production and delivery of certain goods and services unavailable in the donor country. In a similar manner, the repayment of credits may create certain difficulties in cases where a given country has agreed to receive in payment goods which are not required at the time of repayment, though this problem might in many cases also be resolved through the re-export of such goods. Such arrangements may not, however, be adequate to solve the problems arising from the strictly bilateral character of the aid agreement.

The shortcomings of the strictly bilateral credit agreements providing for shipments of goods rather than for supply of convertible currency are clearly recognized by the centrally planned countries, and the possibility of introducing a certain form of multilateral arrangement has been envisaged in connexion with the creation of the "International Cooperation Bank" of the CMEA countries and the introduction of the transferable rouble and multilateral compensation of payments balances between the CMEA countries which are intended to operate



within the framework of bilateral agreements. Although these measures are, at present, to be applied only to the CMEA countries, they do open up the possibility of certain extension of these facilities to other countries. The recent official or semi-official statements indicate that the new bank of the CMEA countries may, in the future, extend to the developing countries credits in roubles convertible within the CMEA area; this will enable the receiving countries to use these credits for financing deliveries of goods from any CMEA country on the basis of triangular or multilateral agreements. These facilities need not be limited to credits offered by the bank and may also be extended to credits offered by individual CMEA countries to the developing countries within the framework of special agreements. At the same time the repayment of credits to one centrally planned country could also be effected by the use of transferable roubles earned from exports to another CMEA country rather than by direct exports of commodities to the donor country.

Although the introduction of these measures might lessen the problems raised by the bilateral credit agreements, it is not likely to eliminate altogether the adverse aspects of tied loans arising from the fact that they reduce competition between potential suppliers and may render difficult procurements from the optimum sources of supply. It should be added, however, that it has been maintained in the centrally planned countries that these adverse effects are of little importance for the aid granted by these countries for the following reasons. The credit offered to developing countries is as a rule formulated in physical terms and translated into value terms by the methods used in all foreign trade transactions of these countries. This evaluation is not based on domestic cost but on world prices of specific commodities entering into a given project; in cases where the world price is difficult to determine, it is stated that the project construction is offered on reasonably competitive terms with respect to price, delivery dates and other relevant factors. This, it has been stated, is made possible by the fact that in the case of the centrally planned economies both the granting of loans and the execution of projects are undertaken by a state organization, instead of being handled separately as in market economies. In addition, the description of technological processes necessary for operating the projected plants as well as patents and licences, as a rule, are offered to the recipient countries free of charge, except for the cost of preparation and shipment of the relevant documents.

The credits offered by the centrally planned economies to the developing countries are, as a rule, earmarked to cover the following expenditures: (a) geological surveys and prospecting, preparation of projects, research and studies prepared by the organizations of the donor country; (b) delivery of ma-

chinery and equipment for construction works, and of building materials not available in the recipient country; (c) delivery of machinery and equipment for the project constructed with the aid of the donor country; (d) the cost of travel both ways for experts from the donor country, with the exception of certain preliminary missions, the services of which are, in some cases, granted free to the credit-receiving country; (e) training and education of nationals of the recipient country in the donor country; (f) cost of preparation and transmission of documents dealing with technical processes and procedures necessary for the operation of the completed projects. As already stated, no patent, licence or other fee is charged to the credit recipient countries for this documentation.

As indicated by the above enumeration, credits offered by the centrally planned economies cover, as a rule, only goods which cannot be produced by the recipient country. This policy has, undoubtedly, a stimulating effect on the mobilization of internal resources for economic growth. Its other effect is that it enables the credit-receiving country to use a given amount of credits for the construction of a greater number of industrial or other projects than would be possible if the credit were used not only for imports of equipment and materials that cannot be produced by domestic industries, but also for financing other outlays. But, as already noted with respect to aid granted by the developed market economies, in some instances this pattern of aid, if strictly adhered to, may present difficulties for the developing countries. Thus, the ability to utilize the equipment and other goods offered on credit may be restrained, to a certain extent, by the lack of domestic resources or the inability to mobilize them at a given time for development purposes. This difficulty may take the form of enlarged import requirements arising from the derived demand generated by the construction of projects financed with the assistance of foreign credits. In some exceptional cases, the credit agreements have covered at least part of the wage cost in the form of shipments of consumer goods used as a counterpart of wages paid to domestic manpower. Thus, for instance, the protocol signed in 1962 between the Soviet Union and Ceylon provides that "to the extent of any unutilized portion of the credit available, after all the contracts have been signed, the Soviet Government will supply Ceylon with goods, the proceeds of the sale of which could be used to finance the local currency cost of projects under the Agreement".<sup>46</sup>

The expenditure of the agencies of the donor country on wages and salaries of technical assistance

<sup>46</sup> Ceylon, Ministry of Finance, *Foreign Economic Aid, A Review from 1950-1962* (Colombo), page 33.

personnel sent to the recipient country is not, as a rule, covered by credit, but must be reimbursed by the Government of the recipient country in local currency paid into the donor country's account in a local bank. These deposits are used by the agencies of the donor countries for current expenses, and the unspent part of these deposits can be used by the donor country to pay for imports or, if so agreed, may be reimbursed in convertible currencies. In some cases, the expenses of personnel of the donor country providing technical assistance to a developing country have, however, been covered by the credits. While little information is available on the salary scale of the technical assistance experts from most of the centrally planned economies, it is of interest to note that several credit and technical assistance agreements concluded by mainland China stipulated that the salaries of Chinese experts and qualified workers should be equal to those paid to the nationals of the recipient country. The prices of machinery, equipment and other goods are those prevailing in the foreign trade of the centrally planned economies, which generally correspond to world prices for similar commodities. They are fixed at the level prevailing at the time the agreement is concluded and they are not subject to change.

The repayment of the principal begins, as a rule, one year after the completion of the project, thus enabling the developing countries to start repayment at the time the investment has begun to produce income. In the case of the Soviet Union the repayment takes place generally over a period of twelve years, while credits offered by the other European centrally planned economies are repayable over a period of eight years or less. The period from the beginning of the project construction to the completion of repayments will generally be several years longer. Repayments of principal are, as a rule, made in equal but, in some cases, in increasing annual amounts. Interest rates, amounting to 2.5 to 3 per cent, are calculated exclusively on the outstanding balance of the utilized credit.

An important feature of the aid policy of the centrally planned economies is the fact that the repayment of principal and of interest can be made in the form of traditional exports of the recipient country. In some cases the agreements provide for repayment by means of exports of goods produced by the enterprises established with the aid of the credits. This provision makes even more apparent the self-liquidating aspect of credits, which become repayable only when the project begins to produce. Agreements providing for repayment in terms of goods produced by the assisted project may have another advantage both for the donor and for the recipient country. In the case of the recipient country, this may enable it to achieve economies of scale,

especially if, as may be expected, the exports to the creditor country will not cease after the repayment of the credit. Thus, for instance, the tire and tube plant built in Ceylon with Soviet aid has a capacity of 360,000 tires compared with domestic consumption of about 140,000. The possibility of repayment of loans, partly by exports of tires, made it worth while to build a plant with a capacity exceeding substantially the current domestic requirements.

For the centrally planned economies, considerations of comparative cost may, in certain cases, indicate that for certain commodities imports, first in repayment of credits and later on a commercial basis, may be more advantageous than an expansion of domestic production. Such a policy would imply a willingness to extend, to a certain degree, the division of labour which exists among the centrally planned economies to some developing countries.

Most of the credit agreements provide for the possibility of repayment in convertible currency by mutual agreement of the contracting parties at the time of repayment. As a rule, credit agreements concluded by the centrally planned economies with the developing countries contain a gold clause guaranteeing the creditor as well as the debtor country against losses due to changes in exchange rates. As already stated, the real value of credits extended by the centrally planned economies is not affected by price changes of goods earmarked for delivery. It is not certain, however, whether and to what extent any steps were taken to prevent price fluctuations from affecting the real value of repayments made in kind or in the currency of the debtor countries. In some cases the agreements stipulated that the repayments in kind will be effected at fixed prices. The possibility of repayment in convertible currency enables the debtor country to reap the benefit of price increases of its traditional exports by using this provision in lieu of repayment in kind at prices prevailing when the credit agreement was concluded.

#### CREDIT INSTITUTIONS AND PROCEDURES

The framework of credit arrangements between the centrally planned and developing countries is largely determined by the fact that with minor exceptions the agreements are made between central authorities. Negotiations are initiated through diplomatic channels by either party, though in most cases, by the recipient country. Since the credits are extended to the Government of the recipient country, they are, as a rule, utilized within the public sector. However, this has not precluded the use of the services of private subcontractors by the recipient Government. In consequence, the credits of the centrally planned economies have contributed primarily to the growth of the public sector in the recipient countries,

although indirectly they have also stimulated the growth of the private sector.

The procedure of bilateral loan agreements is best illustrated by the example of the Soviet Union, which is by far the largest creditor country. Although the institutions and procedures in other countries may differ in some degree, the arrangements of the Soviet Union are fairly representative of the broad pattern of activities related to foreign aid in the centrally planned economies. As a rule, the preliminary discussions relating to aid are referred to the central authorities which call upon various government committees and agencies for the general evaluation of the economic implications of the credits. The findings of these agencies provide the general basis for government decisions with respect to granting loans, preceding the formal conclusion of the general agreement with the recipient country. The agreement specifies, as a rule, the amount of credits and enumerates the projects which will be built with the aid of the donor country, as well as the conditions and schedules of repayments. As a rule, this general agreement provides the basis for more detailed "protocols" signed by the representatives of the contracting parties which lay down in greater detail the sequence of construction and deliveries of goods, the cost of equipment and the preparation of projects and surveys, as well as wages and salaries of the technical personnel to be sent to the recipient country.

In the Soviet Union, the responsibility for the supervision of the implementation of economic and technical assistance is entrusted to the State Committee for External Economic Relations attached to the Council of Ministers. The Committee takes an active part in the preparatory consultations and in the preparation of surveys and evaluations, as well as in the organization of the production and delivery of goods and services to the recipient countries and in arrangements for the training of engineers, technicians, and other qualified workers in the Soviet Union. The main tasks of this Committee have been defined as consisting in introducing measures aimed at extending economic co-operation of the Soviet Union with the other centrally planned economies on the one hand, and with the developing countries on the other, and in securing the fulfilment of obligations assumed by the Soviet Union with respect to economic co-operation with and bilateral economic assistance to other centrally planned and developing countries in constructing complete industrial enterprises and other projects.

Unlike the credits for constructing complete projects, the implementation of which is under the supervision of the Committee for External Economic Relations, the loans to foreign countries for purchases of specific goods are implemented by Foreign Trade Agencies subordinated to the Min-

istry of Foreign Trade of the Soviet Union. These commercial credits offered to state, co-operative or private firms are usually guaranteed by the Government or the Central Bank in the recipient countries and cover 80 to 90 per cent of the value of the purchases. They are repayable within a period of three to eight years and carry an interest rate of 2.5 to 4 per cent.

The State Committee for External Economic Relations carries out its obligations through four specialized agencies responsible for aid activities in specific fields. Each specialized agency either deals directly with various enterprises, agencies or institutions in ordering goods and services required for a given project, or assigns this responsibility to a single large enterprise or institution.

The organizational pattern of the administration of foreign aid in the centrally planned economies is largely determined by the state ownership and direct administration of producing enterprises by the state authorities. The preparation of surveys and blueprints and the production of materials, machinery and equipment necessary for the construction of a given project, as well as the provision of experts and the training of nationals of the recipient countries, require the co-operation of a large number of institutions and enterprises subordinated to various ministries, economic councils, and other bodies. All these enterprises work under state-approved production and supply plans, which cannot be altered without the necessary authorizations, and the allocation of various tasks to individual enterprises and institutions can best be achieved in the prevailing conditions by a centralized state agency subordinated directly to the State Committee for External Economic Relations. The decision with respect to the allocation of tasks among various enterprises and institutions rests with the Council of Ministers of the Soviet Union.

The centralization of the activities related to foreign economic assistance within the donor countries is closely associated with a similar centralization in their dealings with the recipient countries. As a rule, the representatives of the recipient countries do not deal directly with any of the enterprises or institutions producing goods or providing services required for a project built with aid, although such contacts or consultations are not in principle precluded. The need for such direct relations is not, however, of great importance in the case of complete projects, because the Soviet agency dealing with individual plants within the country is usually in charge of all the technical aspects of project execution, and acts in close co-operation with the organizations of the recipient country responsible for all

work which can be accomplished by the use of domestic resources.

As already indicated, the activities of the State Committee for External Economic Relations in the Soviet Union, or of similar bodies in other centrally planned economies, are not confined to the implementation of the credit agreements. The representatives of the Committee participate in all stages of the preparation of the aid programme, including the negotiations with the credit-receiving countries and the preparation of surveys and evaluations. If the receiving country so desires, the donor country undertakes the evaluation of the over-all economic effectiveness of various projects, the availability of raw materials and the level of development of various sectors and industrial branches, as well as other factors, in order to determine the choice of the projects to be constructed. The evaluation of investment efficiency undertaken by the agencies of the donor country is not aimed at the achievement of maximum profitability of a given project. Since almost all projects built with the assistance of the centrally planned economies are state undertakings, there is ample scope for the application of investment criteria similar in many respects to those in use in the centrally planned economies. The choice of a project is determined by its contribution to the acceleration of the growth rate of the economy. Frequently this is tantamount to the selection of projects facilitating the future rise in the rate of capital accumulation and the lessening of dependence on imports of machinery, equipment and other capital goods from abroad. Since this tendency appears to be very similar to the pattern of growth characteristic of the centrally planned economies, it is important to note that, according to authoritative pronouncements, the experts or aid agencies of the centrally planned economies are not guided in their evaluations by the pattern of growth of their own countries nor by any doctrine of stages of economic development, but by the most efficient use of resources in any given situation. Thus, in many instances, a first priority rating has been given to the expansion of light industry and mining, rather than to engineering and heavy industry. In most cases the economic evaluations and surveys have been conducted with the participation of experts from the credit receiving country. The granting of credit has not been made dependent upon the acceptance by the receiving country of the conclusions arrived at by the experts of the donor country. The final decision with respect to the choice of the project to be financed rests in all cases with the Government of the recipient country.

The over-all surveys and evaluations are followed by more detailed technical studies, preparation of blueprints and work schedules by the agencies of the donor country both in the territory of the

receiving country and at home. At this stage, as well as in the construction stage of the projects, the experts and technicians of the donor country work in close co-operation with those of the recipient country. The representatives of the donor countries are, as a rule, in charge of co-ordination of the work of their own experts and of specialists from the receiving country. They are responsible for the technical direction of construction, delivery of equipment, installation of machinery and equipment, and for putting this equipment into operation according to established schedules. The authorities of the recipient countries and their agencies are responsible for all work which can be accomplished by the use of domestic goods and services. In consequence, the participation of the experts from the donor country in a given project, and the share of foreign credits in the cost of the project vary considerably. In cases where the construction of a given project requires a considerable amount of local labour and materials, the share of foreign credits may be relatively small compared with projects which require large outlays on imported equipment. Thus, for instance, the share of credits in the total cost is relatively small in the case of construction of roads or dams, although even in such cases, the donor country usually provides the construction equipment which, after the completion of the work, remains in the credit-receiving country.

The agencies and organizations of the recipient countries are, as a rule, responsible for the presentation of basic data for the preparation of a given project, for the hiring of labour, the purchase of local materials, and the direct organization of construction work. As already mentioned, these organizations, agencies, or individual experts take an active part in the preparation of the projects. While problems relating to the most essential parts of the project are, as a rule, within the competence of the foreign experts, most of the ancillary work is prepared by the local experts, although generally in consultation with the experts from the donor country.

#### RELATIONSHIP TO TECHNICAL ASSISTANCE

One of the features of the aid policies is the achievement, whenever possible, of the widest participation of technical personnel of the developing countries in the technical preparation of projects. This practice enables the personnel of the recipient countries to get acquainted with the methods used by the exports of the donor countries, and to use the acquired experience for future work, thus lessening the dependence on foreign technical assistance. This aspect of technical assistance is even more important during the construction stage of the new projects.

On-the-job training of engineers, construction workers and other qualified labour has become a significant feature of technical assistance of the centrally planned economies, facilitated, in many cases, by the presence of a large number of qualified construction workers and engineers from the donor countries. Thus, for instance, in the construction of the Bhilai steel plant in India, the process was accompanied by continuous on-the-job training of Indian engineers and qualified workers, so that the Indian specialists were able to take a very active part in all stages of construction of the second blast furnace, and to take over completely the work on the third blast furnace. Similarly, the construction of the Asswan Dam in the United Arab Republic was associated with on-the-job training of a considerable number of workers. While the scale of these two operations was rather

exceptional, similar methods on a smaller scale were applied in other countries receiving economic assistance from the centrally planned economies.

In addition to the on-the-job training, a considerable number of technicians from the developing countries were trained in the donor country in plants similar to those under construction, in order to enable them to acquire the skills necessary for the efficient operation of the new plants. Apart from on-the-job training, which has extended beyond the labour force required for the plant built with the credits, a considerable number of specialists and technicians have also been trained with the assistance of the centrally planned economies in various scientific institutions and technical schools both in the donor and the recipient countries.

## Chapter 9

### INTERNATIONAL COMPENSATORY FINANCING OF THE EFFECTS OF CHANGES IN THE TERMS OF TRADE

The terms of trade of the developing countries as a group reflect the fact that the exports of these countries consist overwhelmingly of primary commodities and their imports largely of manufactured goods. There is a close relationship on the one hand between the average export unit value of developing countries and the price index of primary commodities entering world trade, and on the other hand between their average import unit value and the average unit value of manufactures entering world trade.

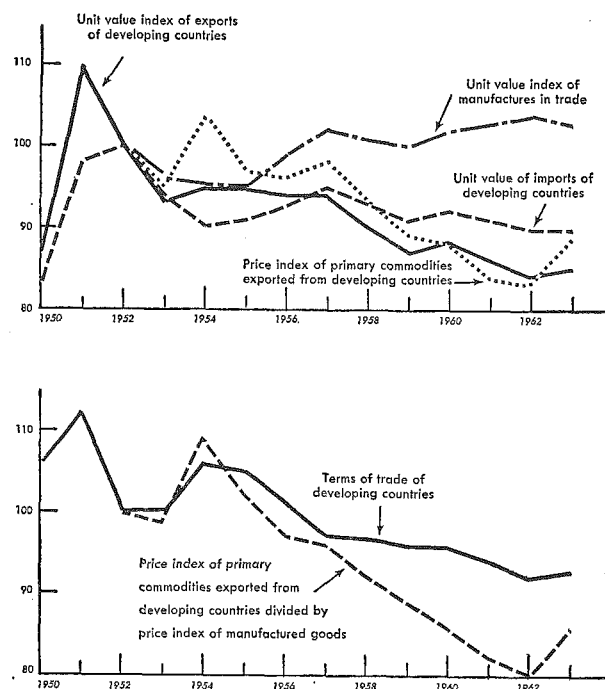
The prices of primary commodities are far more volatile than those of manufactures so that the relationship between the two series tends to show sharp short-term fluctuations as well as considerable long-term changes. And given the generally high degree of dependence of individual developing countries on a small number of primary commodities for the great bulk of export earnings, these variations tend to be even more pronounced for single countries than for the group as a whole.

During the nineteen fifties, not only were there short-term fluctuations of considerable amplitude in the price index of primary commodities entering world trade and in the unit value of exports of the developing countries but there was also a sharp downward trend in both variables from the relatively high levels that had prevailed during the early post-war period of shortages and the period of abnormal demand occasioned by the outbreak of hostilities in Korea. Up to the middle of the decade, the unit value of manufactures in world trade tended to follow these movements, though on a greatly reduced scale. In the second half of the decade, however, the prices of manufactures continued to inch upwards rather than follow those of primary products downwards. As a result the terms of trade of the developing countries underwent a rapid deterioration, amounting to almost 14 per cent in the eight years between 1954 and 1962 (see chart 9-1).

This deterioration in the terms of trade of the developing countries came at a time when the foreign exchange reserves they had accumulated during the

Chart 9-1. Selected Price and Unit Value Indices in World Trade, 1950-1963

(1952 = 100)



Source: Bureau of General Economic Research and Policies of the United Nations Secretariat, based on Statistical Office of the United Nations, *Monthly Bulletin of Statistics*.

wartime and early post-war period of shortages of imports had been largely run down and when many of them were embarking on new and more ambitious development programmes involving much heavier outlays for imported capital goods. The connexion between the balance of payments constraint on the rate of investment and the reduction in the real purchasing power of a unit of primary commodity exports was amply demonstrated to many developing countries during this period. Many of them saw the effectiveness of their overseas borrowing gravely impaired by a simultaneous worsening in their terms of trade. As a result, the feasibility of action specifically designed to offset the effects of changing prices on real external purchasing power

has become a subject of increasing interest and concern in recent years. To throw some light on this question it is necessary first to look a little more closely at the significance of changes in the terms of trade.

On a free market, export unit values should, in principle, perform the same types of function as any other market price. In particular, longer-term movements should provide signals for change: producers would be squeezed out of areas in which relative prices are trending downwards and attracted into areas in which they are rising. In principle, therefore, the composition of exports should constantly change in response to relative price movements: commodities experiencing a declining price would tend to become less important, commodities whose price is increasing, correspondingly more important. With similar "corrective" movements proceeding in the case of imports, the terms of trade should reveal a persistent trend only to the extent that underlying productivity and cost conditions experience a systematic change.

The fact that the terms of trade of the developing countries have registered significant changes continuing over a number of years suggests the existence of special influences inhibiting the sort of equilibrating adjustments that might normally be expected in response to the changing price relationship. These special influences are to be found partly in the nature and composition of exports and partly in the underlying structure of the under-developed economies in which the requisite adjustment would have to occur.

The movement of the terms of trade of the developing countries is affected by the predominance of primary commodities among exports. Facing a relatively inelastic demand and increasing competition from domestic production—"synthetic" as well as natural—in the main consuming countries and subject to a rate of growth in final consumption lower than that of most other components of the total product in the principal markets, primary commodities constitute a singularly difficult field in which an exporting country might make purposeful adjustments of an equilibrating nature. The composition of the exports of most developing countries is too concentrated on a few commodities to permit of "marginal" adjustment in any meaningful sense: an unremunerative export item can be dropped and replaced by one whose price has moved more favourably if it is one in a thousand, but when a given product provides more than half of a country's foreign exchange earnings it cannot be the object of adjustment of this nature.

In any event—and irrespective of the nature and composition of exports—adjustments in response to price changes can be made only if the economy is

flexible enough to accommodate them. It is worth while taking factors out of the production of a declining product only when those factors can be more usefully employed elsewhere. Resource transfer of this nature presents considerable difficulties in an under-developed country: often the complementary factors that would be necessary to re-absorb the displaced resource—capital, skill, infrastructure and so on—are just not available. When the alternative to producing the declining export commodity is subsistence agriculture or less, the pressure to change has to reach extraordinary intensity before any response can be expected in the production and export structure.

To say that adjustments raise special difficulties in the circumstances in which most developing countries now find themselves is not to say that such adjustments are not necessary or should not be set in motion. From a global point of view there is no merit in producing unwanted quantities of any commodity. The adjustments that are needed are essentially dependent on (and in some respects actually part of) the normal development process—the widening of the economic base and the strengthening of supply of the factors that are particularly scarce in most under-developed countries. Hence, it is in the interest of the exporting country to try to respond to the longer-term changes in the terms of trade. And it is in the interest of the international community to assist as far as possible in that process.

The problem is most acute when a developing country with a high degree of export concentration experiences a long-term deterioration in its terms of trade, for this very process of deterioration reduces the resources at its disposal for making the required changes in its export and production structure. International action in these circumstances might take the form of preventing, delaying or moderating the decline in the ratio of export prices to import prices by means of commodity agreements which would spread over all producers in an equitable manner the burden of bringing the supply of the principal products involved into line with consumption at reasonable prices.<sup>1</sup>

As a complementary measure to a programme for sustaining, or at least smoothing out changes in, the prices of particular commodities, international action might consist of providing some form of compensation for such changes *ex post facto*. As implied above, a significant consideration underlying this type of action would be that longer-run price changes of this nature should be used for what they are, namely, guides for investment and production decisions which, if allowed, would lead to an im-

<sup>1</sup> This type of international action is discussed in chapter 6 of the present report.

provement in the distribution of resources and efforts on a global scale. In so far as to follow the guidance of price changes in this way involves changes in resource allocation in countries that are poorly equipped to make such changes, the efforts of the international community would be directed to facilitating the indicated adjustments. Since a longer-run decline in the price level of a country's exports deprives the very country in which adjustments have to be made of some of the means of financing those adjustments, the international response might be the creation of a fund from which compensatory financial assistance could be obtained to offset the effects of the price decline and to help in the process of resource transfer.

The broad principle of compensating for changes in relative price levels may be interpreted in a variety of ways when translated into practice. The first part of this chapter is devoted to a brief and tentative examination of some of the possibilities. Even though the basic purpose to be achieved might remain constant, the precise nature, scope and method of operation of a compensatory system could be varied almost indefinitely. The chief characteristics of any scheme would be determined very largely by the way in which the compensatory fund was raised and the use to which compensatory payments were put. But within this framework there would be room for many different types of mechanism and action—depending upon how the relevant price changes were measured, whether the compensation was automatic or discretionary, complete or partial, by loan or by grant and, in general, on how the scheme was administered.

The second part of the chapter is reserved for the consideration of some of the more detailed questions which would have to be answered before a compensatory system could be put into operation. Though some of these questions are of a technical nature, the way in which they are handled would exert a considerable influence on the shape of a compensatory system.

The cost of the scheme, that is, the extent to which it involved a net financial transfer from one group of countries to another—from those that had gained from price changes to those that had lost, from industrial countries to primary exporting countries or from developed countries to developing countries—would depend in part on the precise nature of the system that was set up and in part on actual movements in relative prices. In the present context—the exploration of some general principles—it would not be appropriate to enter into the question of magnitudes. The relevant price movements obviously lie hidden in the future, while the precise features of any scheme would have to be

negotiated from among a vast range of possible variants.

The type of arrangement that would probably involve the largest net transfers would be one in which all reductions in export prices and all increases in import prices, relative to a fixed base, were fully offset by a compensatory payment that was not reimbursable. A deterioration of one per cent a year in the terms of trade of the developing countries (which was the approximate average rate experienced by these countries in the period 1950-1962) and a trade level rising from, say, \$20 billion to \$30 billion a year in the course of the decade (which was the approximate increase in exports registered by the developing countries in that period) would entail a net transfer steadily increasing from about \$200 million in the first year to about \$3 billion in the tenth.

If the terms of trade of the developing countries were to continue indefinitely to deteriorate in the manner just postulated, the cost of restoring the "parity" of a fixed base would grow ever larger. If this happened, it would mean that the compensatory system had failed completely in its principal purpose, namely—by placing additional resources at the disposal of the country whose export prices are in relative decline—to hasten the development and diversification process that would halt that decline.

A compensatory scheme, however, need not be premised on some remote base year. The decline in the terms of trade of the primary exporting countries that occurred between 1954 and 1962 was at least in part the result of a serious imbalance between production capacity and current rates of absorption brought about by many essentially short-run factors, among which the earlier shortages, high prices and demand for inventories were the most potent. A decline of this duration in the real purchasing power of exports can be a serious source of embarrassment and possible disruption of investment plans in the developing countries. A compensatory system might serve a very useful purpose in reducing the waste of delay and deferment that might be forced on a developing country by unexpected stringency in its foreign exchange resources caused in this way. Thus, instead of the compensatory payments being made automatically in relation to a fixed parity base, they might be based on the prices in terms of which the development plan was calculated. The cost of the scheme could thus be limited to the support of the external resources required for carrying out an appropriate development plan in the face of relative price movements less favourable than those postulated in the plan.

Even a superficial examination of possible schemes suggests that there are enough operational variables



to make a compensatory system highly adaptable: it could be conceived of in dimensions extending from a modest *ad hoc* arrangement for underwriting the external resources of a particular development plan

to a comprehensive scheme for the automatic offsetting of gains and losses occasioned by movements in the terms of trade of large numbers of participating countries.

## Compensatory financing: Problems and possibilities

### ALTERNATIVE TYPES OF COMPENSATORY FUNDS

The possible deterioration in a country's terms of trade might be thought of as an insurable risk, and one type of compensatory system might be in the nature of an insurance scheme. The insurance fund from which indemnities were paid would then be built up from premium income.

As indicated above, however, changes in the terms of trade are not distributed in a random fashion: they are far more frequent and much greater among the primary exporting countries than among the industrial countries. While export prices do not necessarily always move in the same direction among the primary exporting countries, it is clear from post-war trends that an insurance system—which would appeal chiefly to the primary exporting countries—would involve premiums too high to be of practical interest to most of the developing countries. As in the case of insurance against short-term fluctuations in export proceeds, therefore, a scheme of this nature would probably not be viable unless there were adequate participation by countries in which the chance of significant deterioration in the terms of trade were relatively small. Such countries—in effect the industrial countries with diversified export structures—would expect to contribute regular premiums but to submit claims only rarely. A scheme of this nature would thus have some of the essential attributes of a social insurance system.<sup>2</sup>

In some ways simpler than a system of insurance would be a “terms of trade pool” into which countries paid any gains that might have accrued to them from a favourable movement in external prices, and from which countries that had sustained losses from external price movements would draw compensatory amounts. This arrangement would have the advantage of gearing obligations to contribute fairly closely to one important measure of capacity: contributions to the pool would be made only by countries experiencing a long-run terms of trade gain and they would be more or less in proportion to that gain.<sup>3</sup>

<sup>2</sup> The analogous problem of providing indemnity for short-term reductions in total export proceeds is discussed in United Nations, *International Compensation for Fluctuations in Commodity Trade* (Sales No.: 61.II.D.3) and “Stabilization of Export Proceeds through a Development Insurance Fund” (mimeographed document E/CN.13/43).

<sup>3</sup> A scheme of this general nature was proposed by Mr. F. G. Olano in 1954. See United Nations, *Commodity*

Such a pool would probably need to be backed up by a reserve or capital fund—or at least a contingency commitment by participating countries—to be drawn on if claims ever exceeded payments. The alternative of distributing among countries experiencing a notional loss only what happened to be collected from participating countries experiencing a notional gain might result in wide and arbitrary differences from year to year in the proportion of claims actually met. The year-to-year differences would depend partly on the extent to which the compensatory system was a “closed” one in country coverage, partly on the degree of uniformity in country measurements of price changes and partly on the leads and lags in trade itself. For the fifty-five countries included in the example worked out in a later section, the annual net balance of notional gains and losses registered between 1954 and 1959 ranged from a surplus of about \$1 billion to a deficit of about \$0.8 billion. A claim for compensation submitted in 1958 or 1959 could have been met in full; one submitted in 1957 could have been met to the extent of less than 70 per cent.

A compensatory scheme might be a general one covering all the trade of the participating countries or it could be based more narrowly on the trade among the participants only: the critical trade flow for purposes of counteracting movements in the prices of the products involved is that between primary exporting countries on the one hand and industrial countries on the other. To link premiums or contributions to the compensation fund directly to this trade flow, however, would probably be unwise: it might tend to discourage industrial countries from expanding their imports from the primary exporting countries, thus aggravating the very situation the compensatory scheme was designed to alleviate.

The scheme might be symmetrical, all countries having the same obligation to pay in to the fund notional gains from changes in their terms of trade and enjoying the same right to compensation for losses. Alternatively, different formulae might be devised for limiting the drawing rights of high-income countries and the contributing obligations of low-income countries. In this way, the compensatory

*Trade and Economic Development* (Sales No.: 54.II.B.1), appendix D.

system might be based on various classes of members each with rights and obligations defined in accordance with criteria deemed appropriate in the light of the scheme's principal objective, namely, to protect vulnerable developing countries from the ill effects of price movements that lie largely outside their power to influence. The less symmetrical the scheme the greater would be the element of income redistribution it embodied.

Another scheme would involve the creation of a "compensation fund" from general contributions of developed countries, based perhaps on national income—total and per capita—or some other criterion of taxable capacity. From such a fund, appropriate amounts would be paid out to developing countries that had suffered a deterioration in their terms of trade. Payments might be made to all developing countries suffering terms of trade losses or alternatively only to such countries whose external resources for approved development plans were put in jeopardy by the price changes.

A fund involving compensatory grants of this nature is visualized in the Report of the Secretary-General of the United Nations Conference on Trade and Development. Its "fundamental aim" would be "to maintain the total purchasing power of the external resources accruing to developing countries through their exports".<sup>4</sup> More specifically, "the amounts of compensation to be received by each exporting country would be determined after consideration of the effect that the deterioration has had on its investment resources and balance of payments, so that the country can receive whatever additional resources it needs to continue its economic development plan without disturbance".<sup>5</sup>

Whatever the precise method of building up a compensation fund, its adequacy would depend very largely on the degree of participation among countries that would expect to be net contributors, either because they were not eligible for compensation in accordance with the fund's rules or because they were unlikely to experience a deterioration in their terms of trade large enough to qualify for compensation. The incentive for such countries to participate in a compensatory system would lie partly in their sense of solidarity with the more vulnerable countries whose economic growth depends in large measure on their ability to increase their export earnings, partly in their realization that a deterioration in the terms of trade of these countries (which are their trading partners) is to some extent matched

by an improvement in their own terms of trade, and partly in the knowledge that in the long run their own exports depend to a degree on the expansion in the import capacity of these countries.

The willingness of countries to participate in a compensatory arrangement in which they were implicitly designated net contributors would also depend on the magnitude of the commitment and the credibility of the scheme. The more open-ended the arrangement, the less acceptable would it be likely to prove, and the fact that the future course of prices must remain not only unknown but unpredictable might be a serious obstacle to a general scheme, particularly one built on a set of formulae requiring more or less automatic contributions to a fund. A more limited scheme in which a ceiling could be placed on the obligations of participating countries would probably attract more support.

Perhaps the most obvious method of containing any compensatory system would be to operate it from a fixed fund or within a maximum annual contribution or contingent liability distributed equitably among participants. Such a fund would not lend itself to automatic disbursement in accordance with the movements of variables over which the administering authority could exercise no influence. But it could be used to finance a general scheme in which the amount paid out in compensation each year, though limited to a specific maximum, would be shared among eligible claimants with proven terms of trade "losses" in accordance with certain predetermined rules designed to direct the flow to areas of greatest need. As already noted, a fund built up from the contributions of higher-income countries with more diversified exports might also be limited by confining payments to countries with development plans that had been approved for international aid; such payments would be used to underwrite the purchasing power of the external resources necessary for acquiring the imports designated in the approved development plans.

While the precise means of raising the revenue required to meet obligations to the compensation fund would always be decided by the participating country in question, the fund might indicate to its members commodities they should avoid taxing. For the fund itself would have some incentive to encourage—or at least to seek to minimize any influence tending to discourage—the consumption of any commodity whose world market price was experiencing a decline likely to show up in the terms of trade of member countries.

It is clear that the scale on which the compensatory principle might be applied may be varied very widely. In part the magnitude of a particular scheme

<sup>4</sup> United Nations, "Towards a New Trade Policy for Development" (mimeographed document E/CONF.46/3), page 99.

<sup>5</sup> *Ibid.*, page 146.

would depend on the level of parity that was to be sustained; in part it would depend on the proportion of the "loss" that was to be offset and the degree of automaticity in administering the rules. It would also depend on the actual evolution of prices and on the degree of success of the scheme itself. For like other development aid—which a compensatory scheme would complement, not replace or substitute—the need for such an arrangement would diminish as the adjustments in economic structure it was intended to facilitate were actually brought about.

#### MEASURING THE TERMS OF TRADE

A compensatory system designed to offset the effect of changes in the commodity terms of trade of participating countries would appear to be fairly simple in principle, but its actual formulation would require generally acceptable solutions to be found to a number of practical difficulties. The most obvious of these practical requirements is a satisfactory method of determining the terms of trade continuously over lengthy periods. When changes are measured, these should be timely, capable of being checked and sufficiently accurate and certain to be regarded as equitable by all participants.

The operation of a compensatory system would thus depend in the first instance on the availability of a means of measuring the changes in the level of export prices and in the level of import prices, for it is on changes in the relationship of these that claims and payments would be based. Both the data and the method used for calculating the terms of trade would have to be acceptable to the international authority administering the scheme. This need not involve the use of identical methods by all parties, but it would probably involve a much greater degree of standardization than is at present the case.<sup>6</sup> This would be necessary not only to defend the compensation fund against false claims but also to secure the maximum degree of equity among recipients.

In some circumstances it might be possible to use a simplified measure of relative price changes. On the export side, a satisfactory index might be obtained by considering only the major items, accounting for at least (say) 80 per cent of total exports. On the import side, it might even be possible to use a single standard index for all countries—perhaps the index of unit value of manufactures moving in world trade. A scheme based on such a price relationship would, in effect, seek to stabilize the purchasing power of each country's principal exports over a given basket of manufactured goods.

<sup>6</sup> Existing measurements of the terms of trade are examined in a later section of this chapter.

#### DEFINING THE BASE

One of the most awkward questions arising in connexion with any "parity" formula which seeks to sustain purchasing power is the absolute level at which parity is to be established. The difficulty in the present case lies partly in the fact that the price ratio concerned is subject not only to the long-term movements which are to be offset but also to significant short-term movements. The latter are caused chiefly by the instability of individual primary commodity prices on the world market and hence tend to differ from country to country in accordance with the particular composition of exports. It follows from this that no single year is ever likely to be regarded universally as "normal". The only years in which a large majority of primary exporting countries experienced a similar movement in prices—1938 on the downside, for example, or 1951 on the upside—are likely to be disqualified as being quite abnormal and unacceptable as a base for fixing "parity".

It is probable, therefore, that some sort of average over a period of years would have to be used as a base for measuring the change in the terms of trade. If the average covered a sufficient number of years—perhaps a trade cycle—it might be regarded as equitable among the potential beneficiaries and suitable by the potential contributors.

There might be some advantage in moving the base rather than leaving it frozen in an increasingly remote period. The more remote the base period the less relevant is it likely to be to current market conditions. Moreover, as indicated above, if there were a persistent down trend in the purchasing power of a unit of exports, the transfers necessary to maintain parity would become progressively larger.

Adequate flexibility might be provided by a base which moved forward one year each year and thus remained fixed in relation to the current year. The purchasing power of a unit of exports would thus be stabilized at its average level  $x$  years before. Alternatively, it might be frozen at the base level for a given period—perhaps the duration of a single development plan—and then adjusted to a new base when a new development plan was adopted.

If additional smoothing of year-to-year fluctuations were thought desirable, the "current" terms of trade might also be defined as an average—perhaps of the three years ending in the year the claim accrued—rather than a single year.

The question of base also arises in connexion with the weights to be used in the calculation of the price indices. Again, it is probable that the purposes of the compensatory system would best be served by using averages over several years for weighting purposes rather than the more erratic annual figures.

And the pricing of the more recent basket of exports in the two periods would probably yield a more realistic measure of change than the pricing of a basket representative of exports in the base period.

COMPENSATORY PAYMENTS:  
AUTOMATIC OR DISCRETIONARY

In principle, a compensatory system could be a fully automatic one: the fund would receive contributions according to one formula and make payments according to another. Administration would consist largely in seeing that members' obligations had been duly fulfilled and that claims for compensation were legitimate.

At the opposite extreme, the fund might work on a completely discretionary basis. While a formula might prescribe the limits of compensation, actual disbursements might be made only on proof of need. The fund might, for example, make good notional losses caused by price change if the claimant country showed that its development plan—premised on the availability of a certain amount of foreign exchange—was being threatened by an unexpected decline in export prices.

In between would be arrangements for paying out compensation up to a prescribed maximum proportion of the notional price loss automatically, but any additional amounts within the computed total only at the discretion of the fund on proof of need. Some degree of flexibility might also be obtained by the use of both loan and grant forms of compensation. The fund might be given authority—in respect of part of the compensation, perhaps—to lend money rather than give a grant. In certain circumstances, it might be more realistic to meet claims with an outright indemnity than to saddle the claimant country with a burden that might reduce its ability to make the structural adjustments which price movements indicate to be necessary. The circumstances—level of income, stage of development, magnitude of past and prospective terms of trade “losses” and so on—would presumably have to be laid down in the form of guide-lines for fund operation.

In so far as loans were used for compensatory transfers—and were in due course repaid—they would ease the burden of financing the fund. To meet the possibility that the terms of trade of the borrowing country might continue to worsen, a loan system could also be provided with some flexibility in respect of amortization: the fund might have discretionary powers to defer the servicing or repayment of the loan if the purpose of the scheme would be advanced by so doing.

In so far as the fund was called upon to exercise its discretion in meeting part of the claim of a country

that had suffered a long-term deterioration in its terms of trade, it might well be influenced by the nature and cause as well as the magnitude of the deterioration. The need for compensation may well be regarded as less desirable if the decline in price has been accompanied by—or even induced and partially offset by—a rise in the volume of exports, particularly of the commodities whose prices had fallen. If the decline in price reflects the result of increasing productivity in the export sectors, the country may be using less in the way of domestic resources to produce the greater volume of the commodity in question: the implicit improvement in the “single factors terms of trade” might also be taken into account. It would be important, however, not to discourage a development which is essentially desirable. The fact that the claimant country was in a better position to meet the consequences of the deterioration in the terms of trade than it would have been if productivity had not risen might be taken for a signal not to reduce compensation ratios but to provide loans rather than grants. The most serious cases likely to confront the fund would be those in which the deterioration in the “commodity terms of trade” was due to a shrinking of demand on the world market which had left the export sector of the affected country with a major adjustment problem and much less chance of maintaining income by expanding volume. This situation might call for the most liberal reaction from the fund—grants at the maximum compensation ratios, to supplement the appropriate forms of technical assistance that might be furnished by other international agencies.

As indicated above, one discretionary use of a compensation fund might involve arrangements in respect of specific development programmes. Commitments and disbursements under such arrangements are almost bound to contain a large discretionary element. A realistic investment plan of (say) five years' duration for which external resources had been lined up on the basis of foreign exchange availabilities, including export earnings estimated at some reasonable price level, might be guaranteed by the fund against unfavourable price movements that upset the original calculations of external balance and threatened to jeopardize the programme as a whole. It might be more economical from a global viewpoint to insure a specific programme against the risk of serious price changes than to allow major losses to occur through abandonment of some projects and deferment of others because of the need to cut back foreign expenditure in the wake of an unforeseen deterioration in price ratios. But, before underwriting the terms of trade incorporated in such a plan, the fund would have to assure itself that the plan was a reasonable one in respect of its

external component and that the price assumptions on which it had been based were realistic.

THE APPROPRIATE USE OF COMPENSATORY FUNDS :  
SOME INCENTIVES AND DETERRENTS

Inasmuch as it is one of the merits of a compensatory system that it would leave market prices free to provide long-run guidance to resource allocation, it may be undesirable to make good any and every loss occasioned by a decline in export prices. This would tend to breed indifference to the price signal and weaken the desire to improve the distribution of factors in primary exporting countries. Hence, a compensatory scheme may have to be designed to offset only part of the effect of any deterioration in the terms of trade.

An "automatic" scheme would have to have its incentives and deterrents incorporated into the various formulae used for computing contributions or premiums on the one hand and changes in the terms of trade and compensation claims arising from them on the other. Insurance premiums might embody some form of risk loading or performance rating and, if the system was to be income redistributing, would involve coefficients based on taxable capacity and export dependence. The proportion of any terms of trade loss that would be offset by a compensatory payment might also vary with national income and export dependence, adjusted perhaps by a factor based on the nature of the price decline as revealed by trends in relevant trade volumes.

It is doubtful whether a completely automatic system of settlement would be able to comprehend and make due allowance for the great complexity and diversity likely to be found among potential claimant countries. It might be considered desirable to adjust compensation rates not only in accordance with the cause and magnitude of the export price decline and the role of exports in the economy but also with due regard to the adjustment efforts that were being made or that might be made—a factor that is likely to vary from country to country. Even an "automatic" scheme, therefore, might find it desirable to limit the proportion of compensation paid on the basis of a predetermined formula, leaving part of the claim to be handled at the discretion of the fund.

The discretionary portion of the compensation would be a powerful instrument in the hands of the fund to induce a claimant country to increase its efforts to modify the composition of its exports and its production structure. The dealings of the fund would be with the Government of the claimant country and not with the producers of the export commodities. While the use that the Government made of the compensation would be within its own jurisdiction, the system would not be intended as a

means of providing price or income support for producers of particular commodities but rather as a means of ensuring that Governments did not have to cut back unduly their development programmes—including, possibly, the diversification of the export sector—because of a shortage of foreign exchange occasioned by unfavourable price movements over which they had no, or extremely little, control.

One measure of the success of the scheme would be the extent to which the composition of exports reflected a moving away from commodities whose real world market price was undergoing a long-term reduction. Some pressure to make needed modifications in export structure might be applied through the calculation of the export price index itself: it might be constructed in a way that would ensure that the weight attaching to a commodity whose price was declining was reduced rather than increased. Unless exports of such a commodity had increased more in volume than they had declined in price, this might be achieved by a moving forward of the weighting system for the calculation of export unit value: this would tend to reduce the importance of a commodity whose price had declined and this would be reflected in a smaller notional loss and hence in a smaller compensatory payment.

The formula adopted for the settlement of claims might also be designed to encourage the process of adaptation. As suggested above, this might take the form of a graduated scale of compensation ratios: the proportion of the notional loss offset by the fund might be higher in some circumstances than in others, depending on certain adjustment or development criteria. A combination of grants and loans might also be used as an incentive to the adoption of appropriate action by the countries receiving benefits.

To some extent the very existence of a compensatory system could help to achieve the purpose for which it was principally intended. The very fact that a participating country was protected to some predetermined degree against any reduction of its external purchasing power through price changes would tend to give that country the greater degree of freedom in making the adjustments to its pattern of resource utilization that past and prospective developments in commodity markets indicate to be desirable. The compensatory receipts would provide the foreign exchange with which to acquire imports most conducive to the desired transformation of the structure of production.

By thus underwriting the external component of the country's development programme, the system could also serve to encourage domestic capital formation. In so far as it helped to stabilize external purchasing power and reduce the need to defend the balance of payments by means of import and

exchange controls, it would have lessened both a significant source of inflationary action and a major deterrent to the inflow of foreign private capital. To this extent, a compensatory scheme would activate other forces calculated to help in the development process during the period when the unbalanced structure of exports tends to make resource reallocation and fixed capital formation particularly vulnerable to external changes.

What might be achieved by a compensatory system, however, is necessarily dependent on the magnitude and success not only of the appropriate steps taken in the developing countries but also of parallel measures in the international field. Among the latter,

two seem to be of salient importance. The first comprises stabilization measures which might assist in sustaining world commodity prices through a wide sharing of the essential adjustment of production and consumption. A compensatory system could hardly be expected to cope with a persistent downward movement in the export prices of the developing countries. The second is the maintenance and expansion of the normal flow of public and private capital to the developing countries. A meaningful compensatory scheme would not be a substitute for other aid programmes but rather a supplement designed to meet a special problem which has been particularly disruptive of development programmes during the recent past.

### Compensatory financing: Some technical and operational questions

One difficulty about compensatory finance is the virtually complete absence of experience in the field. The more general and "automatic" the desired system the more is this lacuna likely to be felt. Perhaps the most serious weakness lies in the very instruments that would have to be used for determining the notional losses the compensatory transfers would be intended to make good, namely, the means of measuring price changes in individual countries' imports and exports in a way that would be internationally acceptable.

A large number of other technical problems would have to be solved before a general compensatory scheme could be put into operation. In the case of some of them—currency problems relating to contributions and payments, for example—the experience of other international financial institutions might be drawn upon. Many of them would be peculiar to the type of scheme involved, but two seem to be of a sufficiently general nature to merit a brief discussion here. These concern the choice of a base from which to measure price changes and the method of assessing the notional monetary effect of such price changes.

#### EXISTING INDICES OF EXPORT AND IMPORT PRICES

Not all countries publish indices that purport to measure movements in the level of prices of the goods they export or import. And among the countries that do, there is considerable diversity in the method used.

Where trade prices are measured, it is usually on the basis of unit values and the most common method is to value a fixed basket of goods at different periods. However, the weighting year whose trade structure is thus represented in the basket is by

no means uniform or necessarily recent: in some countries the composition of trade that is being priced is still that of a pre-war year. In some cases a price index is derived by dividing an index of value by a volume index with fixed base-year weights. This is thus a current weight index measuring a combination of changes in price and changes in composition.<sup>7</sup> As in the case of the pricing of a fixed basket of goods, the base weighting year used for obtaining the volume index differs from country to country and in some may be quite remote.

In a number of countries, import and export prices are measured not by unit values but by wholesale prices—of imported goods and of export items, respectively—on the local market. A few countries use for their import price indices the export price indices of the country from which they obtain the bulk of their imports.

Many countries publish more than one index. Of the thirty-eight countries listed in tables 9-1 and 9-2, for example, eighteen compute alternative import indices, ten compute alternative export indices and eight compute alternative import and export indices. Where two indices are available, they rarely indicate precisely the same price movements.

Differences between alternative indices in the measurement of changes over time may often be quite sizable. Among seven countries with two export price indices, for example, differences in year-to-year changes between 1948 and 1962 exceeded 4 per

<sup>7</sup> If  $P$  = price and  $Q$  = quantity, and  $o$  and  $n$  refer to the base year and the current year, respectively, a relative of value  $\Sigma P_n Q_n / \Sigma P_o Q_o$ , divided by a quantity index calculated on the fixed base (Laspeyres) weighting formula  $\Sigma P_o Q_n / \Sigma P_o Q_o$ , yields a price index of the current base (Paasche) type,  $\Sigma P_n Q_n / \Sigma P_o Q_n$ .

cent on almost 30 per cent of the occasions. And about 10 per cent of the movements were in the opposite direction (*see* table 9-3). Differences between alternative import price indices were even more marked: they exceeded 4 per cent in one-third of the comparisons and on almost a fifth of the occasions the

one index moved in the opposite direction to the other. These disparities in year-to-year movement were accentuated when the two sets of price indices were combined in a terms of trade index.

Similar disparities show up in longer-term comparisons between such pairs of indices (*see* table 9-4).

Table 9-1. Types of Export Price Indices now Published, Selected Countries<sup>a</sup>

<i>Laspeyres</i> <sup>b</sup>		<i>Paasche</i> <sup>c</sup>	<i>Fisher</i> <sup>d</sup>	<i>Other</i>
<i>Country</i>	<i>Weighting year</i>			
Argentina .....	1956	Argentina	Finland (A) (L.1954)	Indonesia (B) <sup>e</sup>
Australia .....	1951	Australia (Q.L.1937)	Ireland	Peru (A) <sup>f</sup>
Brazil .....	1958	Belgium-Luxembourg (Q.L.1953)	Netherlands	Philippines (B) <sup>g</sup>
Canada .....	1948	Canada	Sweden (B)	Spain (C) <sup>h</sup>
Ceylon (A) .....	1948	Colombia	United States	Venezuela <sup>i</sup>
Ceylon (B) .....	1948/52	Denmark (Q.L.1949)		
Finland (B) .....	1935	El Salvador (Q.L.1953)		
Guatemala .....	1954	France		
Honduras .....	1950	Germany (Federal Republic of) (Q.L.1954)		
Indonesia (A) .....	1938	Ghana (Q.L.1954)		
Japan (A) .....	1956	Greece (Q.L.1954)		
Japan (B) .....	1949/50	India (Q.L.1953)		
Malaya (Federation of) .....	1959	Italy		
New Zealand .....	1959	Norway (Q.L.1955)		
Nicaragua .....	1948/52	Philippines (A)		
Panama .....	1958	South Africa		
Peru (B) .....	1953	Spain (B) (Q.L.1953)		
Portugal .....	1950			
Sweden (A) .....	1949			
Switzerland (A) .....	1948/50			
United Kingdom .....	1954			

Source: Bureau of General Economic Research and Policies of the United Nations Secretariat, based on International Monetary Fund, *International Financial Statistics* (Washington, D.C.).

<sup>a</sup> The list is intended to be illustrative rather than exhaustive. The countries are those for which indices are published regularly in the above source. The indices are identified in the table by the same symbol—(A), (B) and (C)—as in the source.

<sup>b</sup> The Laspeyres index is a fixed weight index based on the formula

$$\frac{\sum P Q_0}{\sum P_0 Q_0}$$

<sup>c</sup> The Paasche index is a current weight index based on the formula

$$\frac{\sum P Q}{\sum P_0 Q}$$

Where the index has been derived from a value index divided by a quantity index constructed on the Laspeyres formula, the base of the latter is indicated in parentheses.

For instance, (Q.L.1937) means that the quantity index has 1937 as its weighting year.

<sup>d</sup> The Fisher index is a geometric mean of fixed and current weight indices based on the formula

$$\sqrt{\left(\frac{\sum P Q_0}{\sum P_0 Q_0}\right) \times \left(\frac{\sum P Q}{\sum P_0 Q}\right)}$$

<sup>e</sup> Unweighted geometric average of fifteen export commodities.

<sup>f</sup> Eighteen commodities weighted by preceding half year values. This index is thus essentially of the Paasche type.

<sup>g</sup> Component of the wholesale price index (a Laspeyres index with 1955 as its weighting year) covering export goods sold on the domestic market.

<sup>h</sup> Component of the general wholesale price index (Laspeyres, with 1949 weights). This is a peseta index which gives a much greater weight to oranges, olive oil and wine than would an index based on the dollar value of exports of these items.

<sup>i</sup> Petroleum price index; crude, 35-35.9° API gravity, f.o.b. Puerto La Cruz.

Table 9-2. Types of Import Price Indices now Published, Selected Countries<sup>a</sup>

<i>Laspeyres<sup>b</sup></i>		<i>Paasche<sup>c</sup></i>	<i>Fisher<sup>d</sup></i>	<i>Other</i>
<i>Country</i>	<i>Weighting year</i>			
Argentina .....	1956	Argentina	Finland (A)	Belgium-Luxembourg (B) <sup>e</sup>
Australia .....	1951	Austria	Ireland (A)	Denmark (B) <sup>f</sup>
Brazil .....	1948	Belgium-Luxembourg (A) (Q.L.1953)	Netherlands	Guatemala (A) <sup>g</sup>
Canada .....	1948	Canada	New Zealand (A)	Honduras <sup>h</sup>
Ceylon (A) .....	1948/52	Ceylon (B)	Sweden (B)	Ireland (B) <sup>i</sup>
Finland (B) .....	1935	Colombia	United States	Indonesia (B) <sup>j</sup>
France (B) .....	1949	Denmark (A)		New Zealand (B) <sup>k</sup>
Germany (Federal Republic of) (B) .....	1950	El Salvador (Q.L.1953)		Nicaragua <sup>l</sup>
Guatemala (B) .....	1950	France (A) (Q.L.1956)		Panama <sup>l</sup>
Indonesia .....	1938	Germany (Federal Republic of) (A) (Q.L.1954)		Peru <sup>m</sup>
Japan (A) .....	1956	Ghana (Q.L.1954)		Philippines (B) <sup>f</sup>
Japan (B) .....	1949/50	Greece (Q.L.1954)		Portugal (B) <sup>n</sup>
Malaya (Federation of) ..	1959	India (Q.L.1952/53)		South Africa (B) <sup>o</sup>
Portugal (A) .....	1950	Italy		Spain (C) <sup>p</sup>
Sweden (A) .....	1949	Norway (Q.L.1955)		Switzerland (B) <sup>q</sup>
Switzerland (A) .....	1948/50	Philippines (A)		Venezuela <sup>r</sup>
United Kingdom .....	1954	South Africa (A) (Q.L.1957)		
		Spain (B) (Q.L.1953)		

Source: See table 9-1.

For foot-notes a to d, see table 9-1.

<sup>e</sup> Imported goods component of domestic wholesale price index.

<sup>f</sup> Component of the wholesale price index of domestic and imported goods (Laspeyres, 1955 weights).

<sup>g</sup> Unweighted arithmetic average of six imported foods and beverages, petroleum products and coal.

<sup>h</sup> Derived from the United States wholesale price index by reweighting the major groups in accordance with Honduran imports from the United States in 1950.

<sup>i</sup> Component of the wholesale price index (Laspeyres, 1950 weights).

<sup>j</sup> Unweighted average of forty-four commodities, based on importers' selling prices in the domestic market, i.e., inclusive of import tariffs and profits.

<sup>k</sup> Component of the wholesale price index (Laspeyres, 1926-1930 weights).

<sup>l</sup> United States index of export prices (Fisher formula).

<sup>m</sup> Unweighted geometric average of thirty commodities.

<sup>n</sup> Component of wholesale price index of domestic and imported goods (Laspeyres, 1948 weights).

<sup>o</sup> Component of wholesale price index of home and imported goods (Laspeyres, 1922-1924 weights).

<sup>p</sup> Component of the general wholesale price index (Laspeyres, 1955 weights). As in the case of export commodities, this is a peseta index.

<sup>q</sup> Component of the wholesale price index of home and imported goods; covers only food and raw materials (Laspeyres, 1926/27 weights).

<sup>r</sup> Component of the wholesale price index of home and imported goods, accounting for 50 per cent of its total weight (Laspeyres, 1956/57 weights).



Table 9-3. Comparison of Year-to-Year Change as Measured by the Alternative Indices of Export Prices, Import Prices and Terms of Trade of Selected Countries, 1949-1962

Item and country	Index of change from preceding year in ratio of index A to index B in														Range in ratios	Number of years in which the indices	
	1949	1950	1951	1952	1953	1954	1955	1956	1957	1958	1959	1960	1961	1962		were more than 4 points apart	moved in opposite direction
<i>Export price indices<sup>a</sup></i>																	
Ceylon .....	98	101	99	99	100	100	100	99	101	100	100	100	100	102	98-102	0	0
Finland .....	—118	90	88	116	95	95	102	—103	99	102	100	94	101	102	88-118	7	2
Indonesia .....	...	...	95	104	110	104	86	104	...	...	102	—87	...	...	86-110	4	1
Japan .....	...	...	96	109	100	102	—93	99	—108	105	96	100	98	99	93-108	2	2
Peru .....	...	119	104	98	—114	106	103	109	108	—92	98	115	102	—95	92-119	8	3
Philippines .....	...	97	103	100	100	101	100	96	97	94	96	102	—88	83	83-103	3	1
Sweden .....	96	107	105	91	98	100	102	101	100	98	97	100	100	100	91-107	3	0
<i>Import price indices<sup>a</sup></i>																	
Belgium-Luxembourg ..	107	99	96	108	106	—96	98	101	—104	102	—97	98	—104	99	96-108	3	4
Ceylon .....	—126	104	108	—92	—110	106	—95	89	—107	107	94	100	101	96	89-126	10	5
France .....	...	84	94	116	97	—98	104	104	100	97	100	103	100	—104	84-116	3	1
Guatemala .....	97	101	90	100	—101	109	—87	99	104	98	—97	101	104	102	87-109	3	3
Ireland .....	...	...	...	...	95	—102	101	96	100	98	100	101	101	98	95-102	1	1
Japan .....	...	...	102	101	96	102	100	105	107	95	98	—102	—98	100	95-105	3	2
Philippines .....	...	83	90	110	101	98	—106	93	98	98	94	97	97	93	83-110	7	1
<i>Terms of trade indices<sup>b</sup></i>																	
Ceylon .....	—78	99	—92	108	91	94	104	112	92	94	—107	100	99	—107	78-112	10	4
Japan .....	...	...	94	108	104	100	—92	—94	101	110	98	98	100	99	92-110	5	2
Philippines .....	...	—118	115	91	98	102	94	105	99	96	102	105	91	—90	91-118	8	2

Source: Bureau of General Economic Research and Policies of the United Nations Secretariat, based on International Monetary Fund, *International Financial Statistics*.

<sup>a</sup> For each country, each figure represents the year-to-year ratio in index (A) divided by the year-to-year ratio in index (B) and expressed as a percentage; a ratio of 100 indicates that changes in the two indices were identical; a negative

ratio indicates they were in the opposite direction. For a definition of the (A) and (B) indices, see tables 9-1 and 9-2, above.

<sup>b</sup> The year-to-year ratios represent the terms of trade index (A) (which is export price index (A) divided by import price index (A)), divided by terms of trade index (B) (which is export price index (B) divided by import price index (B)).

Table 9-4. Comparison of Long-term Changes in Alternative Indices of Export Prices, Import Prices and Terms of Trade of Selected Countries, 1948 to 1962

Country and item <sup>a</sup>	Average of				Change <sup>b</sup> to 1960-1962 from		
	1948-1950 <sup>c</sup>	1950-1952	1954-1956 (1958 = 100)	1960-1962	1948-1950	1950-1952	1954-1956
<i>Export price indices</i>							
Ceylon							
(A) .....	84	108	110	97	116	90	89
(B) .....	82	107	110	97	118	91	88
(A)/(B) .....					99	100	101
Finland							
(A) .....	50	82	75	97	193	118	129
(B) .....	48	83	78	102	213	122	130
(A)/(B) .....					90	97	99
Japan							
(A) .....	...	112	101	99	...	89	98
(B) .....	...	122	110	105	...	86	95
(A)/(B) .....					...	104	103
Peru							
(A) .....	47	65	86	132	208	205	153
(B) .....	71	88	92	117	166	134	127
(A)/(B) .....					120	153	121
Philippines							
(A) .....	109	108	97	101	93	94	104
(B) .....	98	97	86	121	124	125	140
(A)/(B) .....					-75	-75	75
Sweden							
(A) .....	73	105	99	98	134	93	99
(B) .....	72	100	98	101	141	101	103
(A)/(B) .....					95	-92	-96
<i>Import price indices</i>							
Belgium-Luxembourg							
(A) .....	89	106	102	98	111	93	96
(B) .....	100	118	108	101	101	85	94
(A)/(B) .....					110	108	103
Ceylon							
(A) .....	82	106	103	99	122	93	96
(B) .....	103	119	110	107	104	90	98
(A)/(B) .....					117	104	99
France							
(A) .....	65	89	85	112	173	125	132
(B) .....	71	95	85	107	152	113	127
(A)/(B) .....					114	110	104
Guatemala							
(A) .....	98	97	97	102	104	105	106
(B) .....	85	91	94	101	119	111	108
(A)/(B) .....					87	95	98
Japan							
(A) .....	...	123	107	95	...	77	88
(B) .....	...	130	113	96	...	74	86
(A)/(B) .....						104	103

Table 9-4 (continued)

Country and item <sup>a</sup>	Average of				Change <sup>b</sup> to 1960-1962 from		
	1948-1950 <sup>c</sup>	1950-1952	1954-1956	1960-1962	1948-1950	1950-1952	1954-1956
(1958 = 100)							
Philippines							
(A) .....	92	111	94	106	115	94	113
(B) .....	79	157	87	123	156	79	141
(A)/(B) .....					74	119	80
Terms of trade indices <sup>d</sup>							
Ceylon							
(A) .....	102	102	106	98	96	96	92
(B) .....	80	91	101	90	113	100	90
(A)/(B) .....					-85	-96	103
Japan							
(A) .....	...	91	95	105	...	116	111
(B) .....	...	94	98	109	...	117	112
(A)/(B) .....						99	99
Philippines							
(A) .....	118	109	109	96	81	88	92
(B) .....	125	101	101	98	78	97	99
(A)/(B) .....					104	90	93

Source: Bureau of General Economic Research and Policies of the United Nations Secretariat, based on International Monetary Fund, *International Financial Statistics*.

<sup>a</sup> The (A) and (B) indices are defined in tables 9-1 and 9-2, above.

<sup>b</sup> A negative sign indicates that the two

indices moved in the opposite direction.

<sup>c</sup> 1949-1950 average, in the case of France, Peru and the Philippines.

<sup>d</sup> Terms of trade index (A) is export price index (A) divided by import price index (A), and terms of trade index (B) is export price index (B) divided by import price index (B).

The most common sources of difference between the various price indices are their coverage, the method of valuation and the way in which the many component items are aggregated into a single figure. If price movements were to be used as the basis of claims for compensation, their method of computation would have to be far more uniform and systematic than is at present the case. The largest discrepancies tend to be those between prices recorded on the commodity markets and the unit values calculated from trade returns cleared through customs, but the choice of base year and the system of weighting can also make a significant difference.<sup>8</sup>

The effect on the terms of trade of a downward trend in the price of a particular group of export commodities, for example, might differ appreciably as between a country using a fixed base weighted export unit value index and one using a current weight index. If the price decline was brought about by a

reduction in demand, the importance of the items in trade is likely to have been lessened and a fixed base weighted index of export prices will tend to show a sharper decline than an index based on current weights. Correspondingly, if expanding supply or lower costs had occasioned the decline in price, trade may have increased and a current weighted index would then register a greater reduction than one based on fixed weights of some earlier year in which the particular commodity group was relatively less important than in the more recent year.

That weighting differences can result in substantially different conclusions concerning the magnitude of the change to be measured (and to some extent to be made good if a compensatory scheme were in operation) may be illustrated by a set of data for the countries of Latin America. The use of current weights, instead of the weights of five years earlier, tended to raise the import unit value indices of all the countries concerned; it also exerted a noticeable, though less uniform influence on export unit value indices. As a result, the terms of trade showed a deterioration between 1950 and 1955 ranging up to 15 per cent greater when measured on the basis of 1955 weights than when measured on the basis of 1950 weights (see table 9-5).

<sup>8</sup> Some of the matters affecting the accuracy and comparability of international trade statistics are discussed in United Nations, *Relative Prices of Exports and Imports of Under-developed Countries*, (Sales No.: 49.II.B.3), appendix A, "Statistical Problems in Measuring Terms of Trade", page 131. See also: Oskar Morgenstern, *On the Accuracy of Economic Observation* (Princeton, 1950); R.G.D. Allen and J. Edward Ely (ed.), *International Trade Statistics* (New York, 1953), part I, "Basic Characteristics of the Statistics", pages 9 to 154.

Table 9-5. Effects of a Change in the Year of Weighting on the Indices of Export Unit Value, Import Unit Value and Terms of Trade for Latin American Countries

(Indices for 1955; 1950 = 100)

Country	Export unit value			Import unit value			Terms of trade		
	1950 weights	1955 <sup>a</sup> weights	Difference (percentage)	1950 weights	1955 <sup>a</sup> weights	Difference (percentage)	1950 weights	1955 <sup>a</sup> weights	Difference (percentage)
<i>South America</i>									
Argentina .....	99	96	-3	112	125	12	88	77	-13
Bolivia .....	116	110	-5	91	96	5	128	115	-10
Brazil .....	103	106	3	102	119	17	101	89	-12
Chile .....	151	152	—	114	127	11	133	120	-10
Colombia .....	119	118	-1	102	119	17	117	99	-15
Ecuador .....	116	108	-7	101	...	...	115	...	...
Paraguay .....	146	145	-1	...	...	...	...	...	...
Peru .....	96	96	—	103	112	9	93	86	-8
Uruguay .....	85	93	9	99	111	12	86	84	-2
Venezuela .....	112	112	—	109	116	6	103	97	-6
<i>Central America</i>									
Costa Rica .....	127	125	—	109	109	—	117	115	-2
Cuba .....	91	90	-2	102	106	4	89	85	-5
Dominican Republic .....	100	100	—	109	125	14	92	80	-13
El Salvador .....	139	141	1	109	110	1	128	128	—
Guatemala .....	130	127	-2	104	116	12	125	109	-13
Haiti .....	117	116	-1	111	...	...	105	...	...
Honduras .....	136	125	-8	106	115	8	128	109	-15
Mexico .....	105	109	14	112	120	7	94	91	-3
Nicaragua .....	134	139	4	98	105	7	137	132	-4
Panama .....	114	112	-2	105	108	3	109	104	-5

Source: Bureau of General Economic Research and Policies of the United Nations Secretariat, based on United Nations, *Economic Bulletin for Latin America*, vol. VII, No. 1, March 1963, table 1, page 105.

<sup>a</sup> This index was originally based on 1955 = 100; it has been transposed by simple division to a base of 1950 = 100.

#### STANDARDIZED INDICES

In view of the crucial importance of the actual measurement of price changes for the purpose of determining claims in any compensatory system, it is probable that for a comprehensive scheme a common basis of calculation might have to be worked out. At the very least, agreement would have to be reached on the method of valuation, on the system of weighting to be applied to component prices, and on the base period from which to measure change.

The problem might perhaps be simplified to some extent by the adoption for the primary exporting countries of a single import price index, namely, the unit value of manufactured goods moving in international trade. The export unit value index would have to be calculated for each country, but a simplified index might also be acceptable for this purpose: given the high degree of export concentration in most

primary exporting countries, the index might be based on the price movements of each country's six principal exports, provided they accounted for not less than (say) 80 per cent of total proceeds.<sup>9</sup> The commodities concerned would for the most part be clearly identifiable and capable of being priced on the market as well as in terms of the unit values derived from customs entries. This would be particularly desirable in cases in which multiple exchange rates and export duties and controls were in operation.

The use of a single import unit value index based on the price of manufactures entering trade would confer some advantage during a period of declining prices for primary products. For, by omitting the

<sup>9</sup> Even among the major, and generally more diversified, primary exporting countries, the three leading items account for over 70 per cent of total exports in more than half of the cases. See chapter 6, table 6-9.

latter from the calculation, import prices would be made to appear somewhat higher for most countries than they actually were. As the use of the standardized form of indices would be confined to developing countries with a high degree of export concentration, however, such an advantage might perhaps be considered in keeping with the general objective of the scheme.

Standardized or simplified forms of price index calculation would be less appropriate for the developed countries. Their trade being more diversified, movements in average prices tend to be much smaller than in the case of the developing countries. Such movements would presumably have to be calculated on an individual country basis though in a uniform manner acceptable to the fund. For a general compensatory scheme of the mutual insurance type, changes in the over-all price levels of imports and exports would be the required variable. For schemes of a narrower scope—concerned with the trade relationship between the industrial countries and the primary exporting countries, for example—it might be desirable to calculate the average unit values in respect of the relevant trade flows.

While the price level of imports from the primary exporting countries might be the most suitable one to take into the calculation of the amount due to the compensation fund, it is probable that the value of that trade might not be the most suitable figure to which the price change should be applied. To reduce the risk that this trade might be cut back in order to hold down liabilities to the fund, it might be wiser to calculate obligations on the basis of total primary commodity imports, applying to this figure the change in price level of imports from the primary exporting countries. This would be done on an individual country basis, each country being accountable for its own notional gains and losses from price movements. Alternatively, in order to reduce the risk that such a system might encourage some countries to reduce their dependence on imports, the computed totals of individual country "gains" and "losses" might be pooled and then distributed among all the participating industrial countries in accordance with some equitable pre-arranged formula.

In so far as the scheme was designed chiefly to offset divergent movements in the price of manufactures on the one hand and the price of primary products on the other, the over-all liability of the industrial countries to the fund—occasioned by a fall in the relative price of primary products—might be simply computed by applying the ratio of the two relevant price indices—manufactures and primary commodities entering world trade—to the industrial countries' total imports of primary commodities. This combined liability could then be distributed among

the industrial countries according to agreed criteria, such as national income.

#### THE PROBLEM OF THE BASE YEAR

The selection of an appropriate base is much more difficult in the case of compensating for long-run changes than in the case of offsetting short-term deviations from a trend. Since there is no objective criterion of normality in the terms of trade, the initial decision about a base would presumably be a matter for negotiation. And given the short-term instability of primary commodity prices it is highly improbable that any single year would find universal support. If the scheme were to be a fixed-base one, it seems likely that only a base that represented an average of several years would avoid anomalies arising from short-term factors whose incidence was unequally spread.

The diversity may be illustrated by showing the terms of trade of a number of primary exporting countries for a given year (1961) in relation to various base years in the preceding decade (*see* table 9-6). Deterioration is seen to have been general, but by no means uniform or universal. Even in relation to the Korean peak years of 1950 and 1951 there were some countries (between a sixth and a fourth of the selected group—much the same proportion as in 1955 and 1956) which enjoyed more favourable price relationships in 1961. If each country sought to have chosen as the parity base the particular year in which its own terms of trade had been an historical high, it would obviously be very difficult to reach agreement on a common base.

A fixed base might present other difficulties. In a dynamic world, the freezing of any relationship between economic variables inevitably runs the risk of creating situations which become increasingly unrealistic. While a compensatory scheme would be intended to provide countries experiencing a worsening of price relationships with financial support for their efforts to reverse the trend by means of employment diversification and other forms of economic adjustment, the success of these efforts could never be universally ensured. Hence, the defence of a fixed parity might involve a drain on the fund that tended to become cumulatively larger, up to the point when contributing countries concluded that too high a proportion of total capital movement was being distributed according to the terms of trade criterion.

Maintenance of 1950 parity for the developing countries as a group, for example, would have involved a transfer approaching \$3 billion a year by the end of the decade. This is not to suggest that the decline in export prices that occurred from the period of post-war scarcity at the onset of hostilities

Table 9-6. Terms of Trade of Selected Primary Exporting Countries, 1961, with Various Years as Base

Country	Base								
	1950	1951	1952	1953	1954	1955	1956	1957	1958
Argentina .....	...	77	98	86	89	92	108	115	106
Australia .....	54	55	72	65	71	80	81	79	102
Brazil .....	76	76	88	85	63	80	86	89	91
Ceylon .....	88	87	121	110	91	81	91	101	94
Chile .....	118	108	99	90	100	89	78	102	114
China (Taiwan) .....	...	...	89	91	94	92	87	97	100
Ghana .....	87	80	86	82	55	62	81	86	61
Guatemala .....	69	66	65	65	54	59	54	61	77
India .....	103	86	108	112	104	104	105	114	109
Indonesia .....	68	65	87	90	87	75	82	80	93
Iran .....	129	134	151	133	122	120	94	88	88
Malaya (Federation of) .....	112	95	105	136	127	82	91	101	105
New Zealand .....	70	70	93	80	78	77	81	85	99
Nicaragua .....	85	67	74	74	58	69	68	79	90
Pakistan .....	70	66	80	111	102	112	126	131	154
Panama .....	73	81	84	77	65	68	72	80	82
Philippines .....	76	80	100	78	84	93	91	93	92
South Africa .....	79	79	92	88	95	95	94	94	102
Sudan .....	87	83	86	104	83	91	84	93	98
Venezuela .....	90	102	100	92	87	87	92	85	86
Number of cases:									
Under 90 .....	13	15	10	10	12	12	11	10	5
90-110 .....	2	3	8	5	6	6	8	7	13
Over 110 .....	3	1	2	5	2	2	1	3	2
TOTAL	18	19	20	20	20	20	20	20	20

Source: Bureau of General Economic Research and Policies of the United Nations Secretariat, based on United Nations, *Statistical Yearbook*; International Monetary Fund, *International Financial Statistics*.

in Korea to the period of excess capacity in most primary sectors at the beginning of the nineteen sixties is likely to continue indefinitely at the same rate. It does mean, however, that the risk of cumulating transfers is inherent in any fixed-base arrangement that guarantees indefinitely the purchasing power of a unit of exports, irrespective of how that unit was composed.

The most realistic base for any general compensatory system might well be an average of several years constantly moved forward. Thus, the parity would be a slowly moving one representing the average price relationship obtaining over a given number of years (three or five perhaps) whose midpoint would be a given number of years (say seven or eight) before the year for which the price deviation was to be measured. For a compensatory scheme designed on an *ad hoc* basis to offset external price changes occurring in the course of specific development plans, it might be logical to denominate parity as the relationship assumed in programming the financing of the plan in question.

#### CALCULATION OF THE TERMS OF TRADE EFFECT

Some of the matters discussed in this chapter may be clarified by means of a worked-out example of a set of data with which a compensatory fund of one particular type, had it existed, would have been confronted in the recent past. Inadequacy of statistics of terms of trade over a long enough period to be usable for purposes of illustrating the effect of long-run changes has made it necessary to limit the example to two countries, one exporting mainly primary commodities, the other exporting mainly manufactures.

In order to smooth out major irregularities in the course of trade and prices, the calculations have been made on the basis of three-year moving averages, both of actual export proceeds and of import and export prices and the terms of trade. The base selected is not a fixed one, but one representing a three-year average centred eight years before the current year—and hence moved forward each year. Compensatory transfers would be made on the basis

of the difference between actual exports and what the value of those exports would have been, had the price conditions of eight years earlier still been prevailing, using in each case the three-year averages centred on the year in question.

The value of exports adjusted by the change in the terms of trade is shown in column 8 of table 9-7. These figures indicate what the real value of exports (in terms of their command over imports) would have been if the export and import prices of eight years earlier had still obtained, all other things remaining the same. The difference between these hypothetical export proceeds and the amount actually realized represents a notional gain (if the terms of trade had improved) or loss (if the terms of trade had deteriorated). These notional gains and losses

—set out in the final column of the table—represent the amounts that would have to be transferred, into the compensatory fund in the case of gains, from the fund to the country involved in the case of losses. It will be seen that the primary exporting country would have had to pay into the fund in 1957, when its terms of trade were more favourable than in the base period, but would have been entitled to compensation on an increasing scale thereafter as its terms of trade worsened in relation to those prevailing eight years before. The industrial country would have had the opposite experience. The two-country example leaves the fund with a deficit which would have to be met by either increasing revenue (from sources other than terms of trade "gains") or reducing the proportion of "losses" eligible for compensation. Similar arrangements might have to be made

Table 9-7. Measurement of Notional Losses and Gains in Export Proceeds Caused by Changes in the Long-run Terms of Trade: a Hypothetical Example for Country P and Country I, 1948-1962

Country and year	Export proceeds (millions of dollars)	Export price index (1958 = 100)	Import price index (1958 = 100)	Terms of trade (1958 = 100)	Three-year moving average			Hypothetical value of exports (with stable terms of trade)	Notional "loss" or "gain" caused by changes in the terms of trade <sup>b</sup>
					Actual export proceeds (millions of dollars)	Terms of trade (1958 = 100)	Change in the long- run terms of trade <sup>a</sup> (t-7 = 100)		
Country P									
1948 .....		102	110	93					
1949 .....		99	115	86					
1950 .....		105	81	130		103			
1951 .....		121	97	125		114			
1952 .....		115	99	116		124			
1953 .....		113	95	119		120			
1954 .....		119	94	127		120			
1955 .....	1,720	111	94	118		121			
1956 .....	1,860	111	98	113		119			
1957 .....	1,860	107	101	106	1,800	112	109	1,651	149
1958 .....	1,800	100	100	100	1,840	106	93	1,978	-138
1959 .....	1,810	95	99	96	1,823	100	81	2,251	-428
1960 .....	1,870	95	101	94	1,847	97	81	2,280	-433
1961 .....	1,920	94	102	92	1,867	94	78	2,394	-527
1962 .....	2,040	93	103	90	1,943	92	76	2,557	-614
Country I									
1948 .....		110	112	98					
1949 .....		105	96	110					
1950 .....		86	94	91		100			
1951 .....		102	113	90		97			
1952 .....		106	107	99		93			
1953 .....		99	103	96		95			
1954 .....		96	110	87		94			
1955 .....	3,490	97	104	93		92			
1956 .....	3,820	100	103	97		99			
1957 .....	4,180	102	106	96	3,830	95	95	4,032	-202
1958 .....	4,160	100	100	100	4,053	98	101	4,013	40
1959 .....	4,510	97	97	100	4,283	99	106	4,041	242
1960 .....	5,170	99	96	103	4,613	101	106	4,352	261
1961 .....	5,540	100	95	105	5,073	103	110	4,612	461
1962 .....	5,840	100	93	108	5,517	105	114	5,254	263

Source: Bureau of General Economic Research and Policies of the United Nations Secretariat.

<sup>a</sup> The base, (t-7) = 100, is a three-year moving average centred eight years before the current year.

<sup>b</sup> Negative sign indicates a notional "loss".

for a multi-country system, for this, too, might find notional gains and losses out of balance.

A second example may be useful in illustrating the consequences of selecting a fixed base and computing the notional gains and losses relative to the parity set by the terms of trade in this period. Table 9-8 is similar to one presented by the Technical Working Group that was established by the Commission on International Commodity Trade (CICT) to report on "Compensatory Financing for Export Shortfalls".<sup>10</sup> The same base period has been chosen (namely, 1953) and two calculations have been made. One is based on an annual index of the terms of trade with 1953 = 100 which is used as a single year-by-year deflator of actual exports. The results are shown for each year, added algebraically and averaged over the period 1954-1960. The second calculation is based on the Technical Working Group's version of the notional gains and losses from changes in export prices and import prices. These prices were also expressed as indices relative to 1953, but they were applied as deflators to exports and imports separately and in the form of three-year moving averages. The Technical Working Group calculation

was done over the period 1949-1960; details are not shown here, but the last column in table 9-8 indicates the annual average of the resultant algebraic sum of "gains" and "losses".

Perhaps the most striking result of taking a single year as a parity base is the rather arbitrary way in which countries tend to emerge as net contributors to or net recipients from the compensation fund. Among the countries registering a notional loss because of the movement of prices relative to those prevailing in 1953 are Canada, France, Italy and Switzerland, while among those registering a notional gain are Ceylon, the Dominican Republic, the Federation of Malaya, Ghana, India, Indonesia, the Sudan, Syria and the United Arab Republic. An automatic and symmetrical scheme that incorporated a fixed parity base would not necessarily serve the purpose of assisting developing countries to reduce their vulnerability to changes in the terms of trade. Just as the choice of 1953 as base was particularly unfavourable to certain exporters of rubber and cotton, so any other single year is likely to give rise to inequities even if the scheme were not a reciprocal or symmetrical one. Clearly, if serious anomalies are to be avoided, it would be necessary to use an average over a period of years as the base for parity calculations.

Table 9-8. The effect of Changes in Terms of Trade on Notional Export Proceeds, 1954-1960 and 1949-1960

(Export proceeds in millions of dollars; terms of trade index, 1953 = 100)

Country	Item <sup>a</sup>	1954	1955	1956	1957	1958	1959	1960	Notional gain or loss (—), average	
									1954-1960	1949-1960 <sup>b</sup>
Canada .....	X	4,585	4,811	5,141	5,348	5,481	5,629	5,869		
	T	97	98	100	95	96	99	98		
	Xn	4,727	4,909	5,141	5,629	5,709	5,686	5,989		
	D	-142	-98	—	-281	-228	-57	-120	-132	-148
United States .....	X	13,144	14,836	17,055	17,747	17,437	17,476	18,718		
	T	96	98	99	102	106	107	107		
	Xn	13,692	15,139	17,227	17,399	16,450	16,333	17,493		
	D	-548	-303	-174	348	987	1,143	1,225	383	237
Austria .....	X	616	719	842	915	955	1,002	1,097		
	T	102	109	109	108	113	116	115		
	Xn	604	660	772	847	845	864	954		
	D	12	59	70	68	110	138	143	86	57
Belgium-Luxembourg .....	X	2,445	2,746	3,041	3,131	3,176	3,372	3,665		
	T	98	101	104	104	104	102	104		
	Xn	2,495	2,719	2,024	3,011	3,054	3,306	3,524		
	D	-50	27	117	120	122	66	141	78	80
Denmark .....	X	972	1,044	1,114	1,185	1,280	1,387	1,478		
	T	102	102	102	96	102	109	105		
	Xn	953	1,024	1,092	1,234	1,255	1,272	1,416		
	D	19	20	22	-49	25	115	62	31	12
Finland .....	X	680	748	800	796	816	866	959		
	T	110	118	111	106	113	113	121		
	Xn	618	634	721	751	722	766	793		
	D	62	114	79	45	94	100	166	94	72

<sup>10</sup> United Nations document E/CN.13/56 of 16 January 1963.



Table 9-8 (continued)

Country	Item <sup>a</sup>	1954	1955	1956	1957	1958	1959	1960	Notional gain or loss (—), average	
									1954-1960	1949-1960 <sup>b</sup>
France .....	X	4,292	4,546	4,856	4,925	5,282	5,864	6,565		
	T	95	97	97	95	99	99	100		
	X <sub>n</sub>	4,518	4,687	5,006	5,184	5,335	5,923	6,565		
	D	-226	-141	-150	-259	-53	-59	—	-127	-104
Germany (Federal Republic of)...	X	5,257	6,247	7,356	8,247	9,063	10,010	11,305		
	T	100	98	99	100	108	110	111		
	X <sub>n</sub>	5,257	6,374	7,430	8,247	8,392	9,100	10,185		
	D	—	-127	-80	—	711	910	1,120	362	148
Greece .....	X	156	175	198	214	219	213	210		
	T	103	113	116	110	118	106	108		
	X <sub>n</sub>	151	155	171	195	186	201	194		
	D	5	20	27	19	33	12	16	19	16
Iceland .....	X	49	56	59	63	64	66	68		
	T	104	107	103	100	106	108	107		
	X <sub>n</sub>	47	52	57	63	60	61	64		
	D	2	4	2	—	4	5	4	3	1
Ireland .....	X	318	312	327	346	367	384	433		
	T	97	97	91	88	93	99	96		
	X <sub>n</sub>	328	322	359	393	395	388	451		
	D	-10	-10	-32	-47	-28	-4	-18	-21	-16
Italy .....	X	1,667	1,880	2,184	2,425	2,681	3,046	3,583		
	T	101	97	92	90	97	96	101		
	X <sub>n</sub>	1,650	1,938	2,374	2,694	2,764	3,173	3,548		
	D	17	-58	-190	-269	-83	-127	35	-96	-56
Netherlands .....	X	2,419	2,656	2,883	3,060	3,308	3,618	3,974		
	T	100	101	100	98	100	103	101		
	X <sub>n</sub>	2,419	2,630	2,883	3,112	3,308	3,513	3,935		
	D	—	26	—	-62	—	105	39	15	12
Norway .....	X	587	682	756	786	792	812	873		
	T	107	108	106	104	106	109	108		
	X <sub>n</sub>	549	631	713	756	747	745	808		
	D	38	51	43	30	45	67	65	48	39
Portugal .....	X	253	280	291	292	290	302	314		
	T	99	104	97	94	95	94	...		
	X <sub>n</sub>	256	269	300	311	305	321	...		
	D	-3	11	-9	-19	-15	-19	...	-9	-2
Spain .....	X	464	451	455	468	488	571	645		
	T	103	96	94	97	99	100	98		
	X <sub>n</sub>	450	470	484	482	493	571	658		
	D	14	-19	-29	-14	-5	—	-13	-9	6
Sweden .....	X	1,596	1,751	1,936	2,056	2,143	2,286	2,503		
	T	99	101	99	96	101	100	101		
	X <sub>n</sub>	1,612	1,734	1,956	2,142	2,122	2,286	2,478		
	D	-16	17	-20	-86	21	—	25	-8	21
Switzerland .....	X	1,244	1,325	1,436	1,514	1,594	1,701	1,869		
	T	100	99	95	95	99	100	...		
	X <sub>n</sub>	1,244	1,338	1,512	1,594	1,610	1,701	...		
	D	—	-13	-76	-80	-16	—	...	-31	-23
United Kingdom .....	X	7,839	8,425	9,056	9,360	9,524	9,777	10,265		
	T	100	99	101	104	111	111	112		
	X <sub>n</sub>	7,839	8,510	8,966	9,000	8,580	8,808	9,165		
	D	—	-85	90	360	944	969	1,100	483	237
Yugoslavia .....	X	228	273	325	386	438	495	537		
	T	104	109	113	109	113	111	111		
	X <sub>n</sub>	219	250	288	354	388	446	484		
	D	9	23	37	32	50	49	53	36	28
Japan .....	X	1,638	2,047	2,457	2,746	3,064	3,463	3,916		
	T	100	100	104	101	103	111	115		
	X <sub>n</sub>	1,638	2,047	2,363	2,719	2,975	3,120	3,405		
	D	—	—	94	27	89	343	511	152	74

(Table continued on following page)

Table 9-8 (continued)

Country	Item <sup>a</sup>	1954	1955	1956	1957	1958	1959	1960	Notional gain or loss (—), average	
									1954-1960	1949-1960 <sup>b</sup>
Australia .....	X	1,793	1,763	1,945	1,916	1,955	1,875	2,096		
	T	92	81	80	82	64	69	66		
	X <sub>n</sub>	1,949	2,177	2,431	2,337	3,055	2,717	3,176		
	D	-156	-414	-486	-421	-1,100	-842	-1,080	-643	-344
New Zealand .....	X	689	728	758	750	765	789	820		
	T	103	104	99	94	81	94	90		
	X <sub>n</sub>	669	700	766	798	944	839	911		
	D	20	28	-8	-48	-179	-50	-91	-47	-23
Argentina .....	X	1,027	967	949	971	993	1,027	1,017		
	T	97	93	80	75	81	88	91		
	X <sub>n</sub>	1,059	1,040	1,186	1,295	1,226	1,167	1,118		
	D	-32	-73	-237	-324	-233	-140	-101	-162	-130
Bolivia .....	X	77	76	77	68	61	53	55		
	T	100	98	102	89	82	88	89		
	X <sub>n</sub>	77	78	75	76	74	60	62		
	D	—	-2	2	-8	-13	-7	-7	-5	1
Brazil .....	X	1,508	1,489	1,432	1,372	1,306	1,265	1,318		
	T	136	106	99	96	93	79	85		
	X <sub>n</sub>	1,109	1,405	1,446	1,429	1,404	1,601	1,551		
	D	399	84	-14	-57	-98	-336	-233	-36	-5
Chile .....	X	426	471	490	461	445	456	496		
	T	90	101	115	88	79	89	95		
	X <sub>n</sub>	473	466	426	524	563	512	522		
	D	-47	5	64	-63	-118	-56	-26	-34	-50
Colombia .....	X	611	612	563	524	482	467	457		
	T	130	105	116	103	88	78	78		
	X <sub>n</sub>	470	583	485	509	548	599	586		
	D	141	29	78	15	-66	-132	-129	-9	-28
Costa Rica .....	X	82	78	77	81	84	84	80		
	T	115	106	112	102	86	79	71		
	X <sub>n</sub>	71	74	69	79	98	106	113		
	D	11	4	8	2	-14	-22	-33	-6	-5
Dominican Republic .....	X	113	120	134	141	143	149	151		
	T	120	101	94	115	115	88	87		
	X <sub>n</sub>	94	119	143	123	124	169	174		
	D	19	1	-9	18	19	-20	-23	1	8
Ecuador .....	X	110	118	121	127	135	139	137		
	T	108	88	86	79	76	77	...		
	X <sub>n</sub>	102	134	141	161	178	181	...		
	D	8	-16	-20	-34	-43	-42	...	-25	-14
El Salvador .....	X	100	108	119	122	122	115	116		
	T	128	112	109	107	90	77	75		
	X <sub>n</sub>	78	96	109	114	136	149	155		
	D	22	12	10	8	-14	-34	-39	-5	-5
Guatemala .....	X	104	112	115	115	110	112	115		
	T	120	111	121	107	84	68	71		
	X <sub>n</sub>	87	101	95	107	131	165	162		
	D	17	11	20	8	-21	-53	-47	-9	-8
Honduras .....	X	58	60	63	69	68	67	68		
	T	108	108	107	99	90	81	79		
	X <sub>n</sub>	54	56	59	70	76	83	86		
	D	4	4	4	-1	-8	-16	-18	-4	-3
Nicaragua .....	X	58	62	65	62	64	62	61		
	T	128	108	111	100	87	77	78		
	X <sub>n</sub>	45	57	59	62	74	81	78		
	D	13	5	6	—	-10	-19	-17	-3	-5
Panama .....	X	31	33	34	33	34	33	32		
	T	118	113	107	96	94	99	79		
	X <sub>n</sub>	26	29	32	34	36	33	41		
	D	5	4	2	-1	-2	—	-9	—	-1

Table 9-8 (continued)

Country	Item <sup>a</sup>	1954	1955	1956	1957	1958	1959	1960	Notional gain or loss (—), average	
									1954-1960	1949-1960 <sup>b</sup>
Peru .....	X	244	274	299	303	304	341	412		
	T	104	103	98	106	93	86	...		
	X <sub>n</sub>	235	266	305	286	327	397	...		
	D	9	8	-6	17	-23	-56	...	-7	10
Uruguay .....	X	234	214	174	159	122	122	134		
	T	104	93	82	85	69	67	80		
	X <sub>n</sub>	225	230	212	187	177	182	168		
	D	9	-16	-38	-28	-55	-60	-34	-32	-4
Venezuela .....	X	1,669	1,893	2,118	2,268	2,352	2,374	2,405		
	T	106	106	100	108	107	98	95		
	X <sub>n</sub>	1,575	1,786	2,118	2,100	2,198	2,422	2,532		
	D	94	107	—	168	154	-48	-127	50	-4
Ethiopia .....	X	69	66	70	69	70	68	74		
	T	121	90	107	102	97	90	91		
	X <sub>n</sub>	57	73	65	68	72	76	81		
	D	12	-7	5	1	-2	-8	-7	-1	-5
Ghana .....	X	254	253	231	238	259	281	291		
	T	148	132	101	95	135	121	103		
	X <sub>n</sub>	172	192	229	251	192	232	283		
	D	82	61	2	-13	67	49	8	37	16
South Africa .....	X	953	1,064	1,179	1,200	1,221	1,212	1,292		
	T	93	93	94	94	86	87	86		
	X <sub>n</sub>	1,025	1,144	1,254	1,277	1,420	1,393	1,502		
	D	-72	-80	-75	-77	-199	-181	-210	-128	-64
Sudan .....	X	130	151	162	155	155	166	184		
	T	126	114	124	112	106	103	111		
	X <sub>n</sub>	103	132	131	138	146	161	166		
	D	27	19	31	17	9	5	18	18	18
Israel .....	X	79	95	114	131	156	181	214		
	T	102	111	111	111	116	108	102		
	X <sub>n</sub>	77	86	103	118	134	168	210		
	D	2	9	11	13	22	13	4	11	7
Syria .....	X	136	147	151	141	125	106	100		
	T	111	115	108	105	99	106	...		
	X <sub>n</sub>	123	128	140	134	126	100	...		
	D	13	15	9	7	-1	6	...	8	9
UAR .....	X	414	414	440	458	469	488	485		
	T	118	112	121	126	117	107	...		
	X <sub>n</sub>	351	370	364	363	401	456	...		
	D	63	44	76	95	68	32	...	63	77
Burma .....	X	239	243	235	224	216	215	223		
	T	83	70	76	66	63	67	...		
	X <sub>n</sub>	288	347	309	339	343	321	...		
	D	-49	-4	-74	-115	-127	-106	...	-79	-21
Ceylon .....	X	372	384	375	359	360	371	372		
	T	121	135	121	109	117	124	124		
	X <sub>n</sub>	307	284	310	329	308	299	300		
	D	65	100	65	30	52	72	72	65	47
China (Taiwan) .....	X	115	111	130	141	154	159	173		
	T	97	99	99	105	94	91	85		
	X <sub>n</sub>	119	112	131	134	164	175	204		
	D	-4	-1	-1	7	-10	-16	-31	-8	-6
Malaya (Federation of) .....	X	609	681	742	689	712	794	874		
	T	107	166	150	135	130	160	163		
	X <sub>n</sub>	569	410	495	510	548	496	536		
	D	40	271	247	179	164	298	338	220	194
India .....	X	1,191	1,253	1,318	1,300	1,301	1,287	1,345		
	T	108	108	107	98	103	105	115		
	X <sub>n</sub>	1,103	1,160	1,232	1,327	1,263	1,226	1,170		
	D	88	93	86	-27	38	61	175	73	84

Table 9-8 (continued)

Country	Item <sup>a</sup>	1954	1955	1956	1957	1958	1959	1960	Notional gain or loss (—), average	
									1954-1960	1949-1960 <sup>b</sup>
Indonesia .....	X	884	898	932	869	865	854	852		
	T	104	120	110	113	97	126	107		
	X <sub>n</sub>	850	748	847	769	892	678	796		
	D	34	150	85	100	-27	176	66	83	90
Pakistan .....	X	400	367	366	333	327	339	371		
	T	109	99	88	85	72	70	82		
	X <sub>n</sub>	367	371	416	392	454	484	452		
	D	33	-4	-50	-59	-127	-145	-81	-62	12
Philippines .....	X	400	418	428	459	484	527	530		
	T	93	84	86	84	85	90	88		
	X <sub>n</sub>	430	498	498	546	569	586	602		
	D	-30	-80	-70	-87	-85	-59	-72	-69	-60
Viet-Nam (Republic of).....	X	87	70	65	60	70	72	77		
	T	95	106	104	100	93	101	94		
	X <sub>n</sub>	92	66	63	60	75	71	82		
	D	-5	4	2	-	-5	1	-5	-1	2
TOTAL, above countries										
Sum of "gains".....		1,408	1,440	1,394	1,731	3,828	4,735	2,451		
Sum of "losses".....		1,390	1,551	1,848	2,529	3,008	2,714	2,513		
Net transfers .....		+18	-111	-454	-798	+820	+979	-62	246	...

Source: Bureau of General Economic Research and Policies of the United Nations Secretariat, based on United Nations, *Statistical Yearbook*; International Monetary Fund, *International Financial Statistics*.

<sup>a</sup> X represents a three-year moving average of actual export proceeds. T represents the index of the country's terms of trade (export prices divided by import prices). X<sub>n</sub> represents the "notional" export proceeds if the 1953 terms of trade had remained unchanged, derived by deflating X by

T. D represents the difference between X and X<sub>n</sub>, or the notional "gain" or "loss" (—) resulting from changes in the terms of trade from the 1953 base.

<sup>b</sup> The average of this column is calculated from United Nations, "Report of the Technical Working Group on Compensatory Financing for Export Shortfalls" (document E/CN.13/56), annex 3, table 5, pages 33 to 42. The terms of trade in this table are three-year moving averages (1953 = 100). For some countries the average is less than the twelve years indicated.

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